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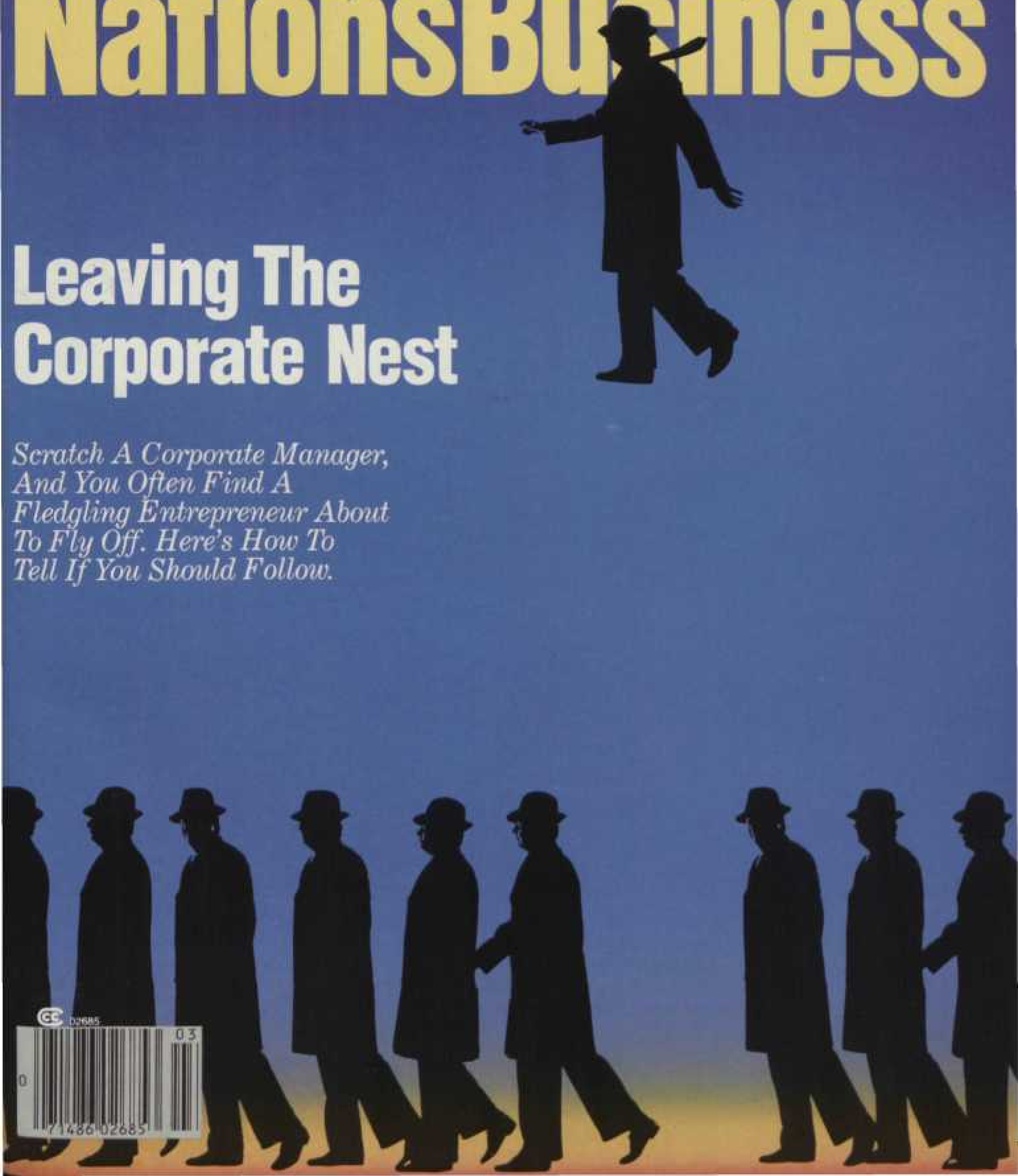

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Nation's Business

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MANAGING YOUR BUSINESS

Dallen Peterson spent 13 years as a corporate employee, rising to head a major division of a national company. Now he runs his own business, Merry Maids, a professional home cleaning service with franchise operations in 42 states. (Cover Story, Page 14)

PHOTO: T. MICHAEL KEZA

DEPARTMENTS

Frances Thaw made her mark in Farmingdale, N.Y., by offering bulbs to fit every lighting need. (Making It, Page 57)

PHOTO: WAYNE SORCE

Cover Illustration: Henry Wolf

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COMMENTARY

Don't Promote "One Of The Boys"

By Myles E. Moore

Worry over American productivity is justified, but the blame for the slippage in our formerly dominant position in the world's economy ought to be placed firmly on management.

The problem is acute in factories of all sizes—and in other businesses, too—where people are doing repetitive jobs and have not been replaced by automation. That is where objectively measurable work is done, and where the productivity battle is being lost.

Top managers are abdicating their responsibility at the front line by creating a force of supervisors who are not trained to be supervisors. The problem can be solved, but only if management recognizes the problem and takes the difficult steps to cure it.

Consider where most supervisors come from: the work force they supervise. Unfortunately, the best worker often becomes the worst supervisor. It is a variation of the Peter Principle as it applies to first-line supervision. Skill on the job does not equate with skill in motivating others to do that job.

I call this the "one-of-the-boys syndrome"—OOTB.

Training is needed. Without it, OOTB supervisors identify more with the work force than management. They don't want to alienate their friends and are reluctant to manage resources, calculate individual and department productivity, plan, assign, follow up, take corrective action and report to management—all those tools that go with being management rather than simply a top worker and problem-solver.

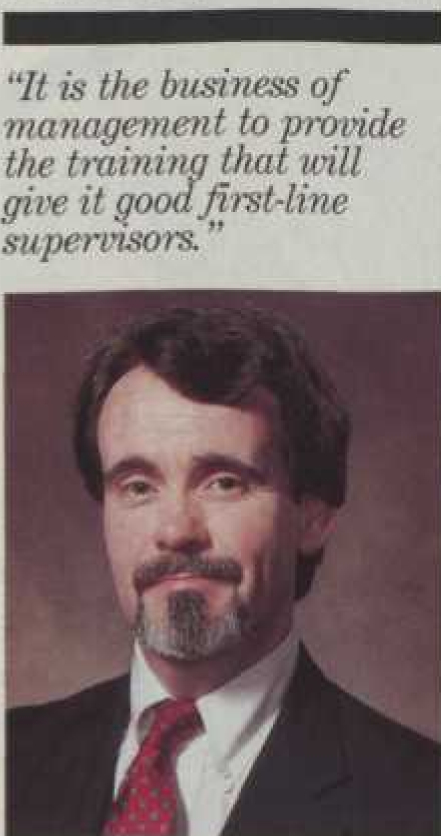
A universal complaint among such OOTB supervisors is the amount of paper work they have to do. They will invariably say in an initial interview about productivity, "If only I didn't have all this paper work, I'd have time to supervise." But what these supervisors are really saying is, "Boy, am I glad I've got all this paper work to occupy my time; otherwise my boss would find out I don't know how to supervise."

Guest columnist Myles E. Moore is president of Improvement Systems, Inc., a Cary, N.C., consulting firm specializing in productivity improvement and cost reduction.

A supervisor trying to do a job that has not been defined for him—and for which he is untrained—conveys an image of incompetence that transfers to management in general.

Our company was asked by a textile mill to do a productivity survey. In such a survey our first question is about production standards on the floor, so that we can make comparative time and efficiency studies. I asked one of the supervisors for a copy of his standards on the first day. I had to ask him again on the third; by the fifth day, all I had were excuses.

"It is the business of management to provide the training that will give it good first-line supervisors."



When we finally saw the standards, it all became clear. They were too easy, and the supervisor did not want to alienate his friends by making them tougher. Top management did not know the standards were bad ones, although they suspected that productivity was not what it should be.

Here is another consequence of OOTB syndrome. This supervisor was not a true link between the work force and management. In such a situation the workers feel alienated, and management has no real sense of what is going on. Even worse, often neither recognizes that there is no actual communication.

In one mill, we distributed a questionnaire designed to measure agreement between supervisors and employees on subjects including job definition, priorities and problems.

Each worker was asked if he or she had discussed the questionnaire with his or her supervisor. Supervisors were asked if they had discussed it with each employee. Almost one third of the employees disagreed with their supervisors about whether they had discussed it at all.

Another of our studies in a different mill had supervisors and workers rank 10 factors influencing employees. "Appreciation of work done" and "feeling in on things" were ranked first and second by workers, eighth and ninth by supervisors.

You would expect that a supervisor who rose through the ranks would at least know what the interests of his or her fellow workers were. Not so: In correlating the data, we discovered a much higher incidence of agreement when the supervisor had never held the employee's job.

It is the business of management to provide the training that will give it good first-line supervisors. A supervisor must be taught to set realistic standards, measure them and recognize the achievements of the work force.

He can no longer be one of the boys; he can be friendly, but he is an objective observer now. Once the system is in place, the supervisor, with an objective means of control and performance evaluation, becomes detached from the work force. He has to be, but he is very uncomfortable. During our training in one plant, one poor fellow had a heart attack. Management should not underestimate the difficulties.

But the end results are worth the pain. Workers get the appreciation that is so important to them. Management learns what is really going on in time to do something. Supervisors are no longer simply fire fighters, but fire prevention experts. And productivity invariably goes up. NB

Letters

Historical Perspective

Congratulations on your 75th anniversary.

I was taken with the article on John Deere, Delta and Singer ["The Tiny Starts Of Titans," January]. At a time when mergers, takeovers and global politics are forcing many companies to take a fresh look at the basics, it's interesting to note that a lot of us never strayed too far from that successful recipe: concern for people and for the communities in which we operate.

Robert L. Thompson, Jr.
Fort Mill, S.C.

Another Way To Go

If an IRA is no longer a deductible alternative for you [For Your Tax File, November], why not explore a $2,000 deposit in a whole life insurance policy? I know six advantages to whole life over any IRA:

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6. The plan can be made self-completing (future deposits made by the insurance company) in case of disability.

Bryan T. Capehart
Capehart & Associates Financial and Insurance Services, Inc.
Pasadena, Calif.

Watch Your Step

As discussed in "Bad Backs: Pains In The Wallet" [January], back trouble is a serious problem. But the cost in dollars lost and discomfort pales in comparison to those related to the No. 1 causes of injuries—slips and falls.

Futhermore, the National Safety Council lists slips and falls second only to automobile accidents among the leading causes of accidental deaths.

Michael Bell
Warrington, Pa.

Send letters to Editor, NATION'S BUSINESS, *1615 H Street, N.W., Washington, D.C. 20062, and include your phone number. Letters addressed to the Editor will be considered for publication unless the writer requests otherwise, and they may be edited and condensed.*

Changing The Rules Mid-Game?

I want to sound off on your questions regarding tax reform [Where I Stand, January]: Should Congress restore the lower tax on capital gains and the investment tax credit?

In the case of capital gains, where a preferred maximum tax rate of 20 percent once applied, future gains will now be subject to a rate of 33 percent (28 for 1987).

This poses no problem for future transactions; investors will consider the absence of preferential treatment when making their decisions. However, for transactions entered into before the

COMMENTARY

Letters

bill's passage, it is too late for investors to change strategies. The return on investments may be substantially reduced, and investors will suffer significant losses.

Similarly, retroactive repeal of the ITC to Jan. 1, 1986, is like saying a touchdown is worth only four points after your team has driven downfield to score six.

Rules changed after the season are one thing; rules changed in the middle of the game are quite another.

Robert E. Rood
Hamburg, N.Y.

The end of preferential treatment for long-term capital gains is long in the coming and very welcome. The lower rates were nothing more than an example of welfare for the rich.

Now if Congress would just raise the top income tax rate back to 50 percent, the system would indeed be fairer to all the taxpayers of this nation.

Paul Kennedy
Conroe, Tex.

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The Nation's Business

Business Outlook

By Roger Thompson

Sorting Out Job Trends

Small business has continued to be the little engine that could for the U.S. economy, creating nearly all of the 1.4 million nongovernment jobs added to the economy during the 12 months ending last September 30. But the engine will slow a bit over the next two years while it adjusts to tax reform, according to a new study by Data Resources of Lexington, Mass.

About 510,000 fewer jobs will be created by the end of 1988 than could have been expected under the old tax law, says economist Donald Walls, the study's author. Hardest hit is manufacturing, with a projected loss of 200,000 jobs caused by tax reform.

Even with the projected drag caused by the tax legislation, the United States will continue to be the envy of Western Europe. Employment growth there has been stagnant during the 1980s while the U.S. economy has created over 10 million new jobs.

Ordinarily such growth would be viewed as a sure sign of rising prosperity. But employment figures alone do not tell the whole story, argue economists Barry Bluestone, of the University of Massachusetts, and Bennett Harrison, of the Massachusetts Institute of Technology.

Bluestone and Harrison maintain that it is important to look at the type of jobs being created, something they did for a December report prepared for the Joint Economic Committee of Congress.

Their report, entitled *The Great American Job Machine: The Proliferation of Low Wage Employment in the U.S. Economy*, touched off a heated debate with its conclusion that net new employment this decade has been concentrated in low-wage service jobs. Critics charged that they did not look closely enough at available data and that their findings are flawed.

At the heart of their argument is a comparison of job growth and wage trends in two periods, 1973-79 and 1979-84. They conclude that new jobs created in the latter period "have been disproportionately and increasingly concentrated at the low-wage end of the spectrum. That 58 percent of all net new employment between 1979 and 1984 paid annual wages of less than $7,000 [in 1984 dollars] clearly supports that conclusion."

Employment By Occupational Groups (in thousands)

	1984	1995	Percent change
Total Employment	**106,843**	**122,760**	**14.9%**
Executive, administrative and managerial	11,274	13,762	22.1
Professional	12,805	15,578	21.7
Technical and related support workers	3,206	4,119	28.5
Salesworkers	11,173	13,393	19.9
Administrative support, including clerical	18,716	20,499	9.5
Private household	993	811	−18.3
Service, except private household	15,589	18,917	21.3
Precision production, craft and repair	12,176	13,601	11.7
Operators, fabricators and laborers	17,357	18,634	7.4
Farming, forestry and fishing	3,554	3,447	−3.0

Source: *Monthly Labor Review*, Bureau of Labor Statistics, November 1985

CHART: LISA COURTNEY

The report fueled the argument, being advanced with increasing frequency, that the American industrial sector, the source of many high-wage blue-collar jobs, is shrinking while the lower-paying service sector is growing.

But a recent report by the Committee for Economic Development, a business-supported research group, says that job losses in manufacturing are the result of increased efficiency in production rather than a decline in the overall industrial sector. Manufacturing output has actually increased as a result of this higher efficiency, and manufacturing's share of gross national product has held steady in the postwar period, says the report, *Work and Change: Labor Market Adjustment Policies in a Competitive World*.

Recent figures illustrate the point. Since 1979, the United States has lost 1 million manufacturing jobs, but productivity has risen at a 4.2 percent annual rate since 1983. The CED report concludes: "The absolute increases in manufacturing productivity and output do not support the [claim of] a rapidly eroding industrial base."

Moreover, Bluestone and Harrison dramatized the negative by selecting the 1979-84 time frame for job analysis, says John Tschetter, a Bureau of Labor Statistics economist. The period included two recessions, one of them the worst such episode since the Great Depression, and soaring inflation.

"When you apply their methodology to 1982-85, a period of economic recovery, you come up with different results, showing almost no growth in the lower-paying jobs," says Tschetter. His own research shows that the service economy is creating a greater proportion of new jobs for high-paid managers, professionals and technicians.

The CED report came to the same conclusion and projects a continuation of the trend for at least another decade (see chart).

"We are in danger of losing sight of the fact that, as the United States restructures to become more competitive, 'old' work [in manufacturing] is eliminated and 'new' work [in service industries] is created," says the CED report.

"Unfortunately, too much of the current debate over structural economic change is focused on the fear of change and not . . . on the employment opportunities being created."

The United States has added 10 million new jobs in the 1980s, but should we be celebrating? Should we be worrying about what those jobs are like? Some new studies offer sharply different answers.

Ups And Downs Of Home Building

The impact of the baby-boom generation will keep demand for new homes strong for the rest of the decade, but the industry will see a decline of 15 percent during the 1990s, says a recent study by Salomon Brothers, Inc.

"The size, age distribution and growth rate by age group of the population are the most crucial factors influencing the nature and extent of housing demand," says the study.

It projects new housing demand at 1.9 million units (single-family and apartments) annually through 1990, 1.6 million units annually between 1991 and 1995, and 1.5 million units annually for the remainder of the century. This compares with 1.7 million units a year between 1981 and 1985.

A major factor in this trend is the 25-34 age category, which provides a large number of first-time home buyers. This group grew 17 million in the past 15 years as the baby-boom generation moved into its adult years, providing an important market for new homes. But the ranks of that age category will decline 5 million over the next 15 years.

The report noted a number of other trends affecting housing demand. For example, the proportion of new households formed by married couples fell from 74 percent in 1960 to 58 percent in 1985. During the same period, the proportion of new households formed by single people living alone rose from 13 percent to 24 percent.

The Salomon Brothers study focused on demographics and did not take into account trends in interest rates or tax policies, both of which could have an additional impact on home sales. NB

Small Business Report

By Roger Thompson

The Small Business Administration's Frank Swain (left) counsels attendees at U.S. Chamber of Commerce conference in Orlando, Fla., on lobbying priorities.

PHOTO: WALTER JOHNSON—PICTURE GROUP

Small Business And Congress

The ink on the legislative agenda drawn up last August by the White House Conference on Small Business hardly had time to dry before Congress and the White House began to act. But the big push on behalf of small business still lies ahead, according to Frank Swain, chief counsel for advocacy at the Small Business Administration.

Swain was the keynote speaker at a small business legislative strategy conference sponsored by the U.S. Chamber of Commerce in Orlando, Fla., in mid-January. Over 100 small business owners and managers and local Chamber of Commerce executives from 41 states attended. They spent two days advising the U.S. Chamber on lobbying priorities for the 100th Congress.

Some important White House conference goals already have been reached. "The conference stopped the family leave bill cold," said Swain. "There's no doubt about it." The bill would have required employers of 15 or more to grant up to 18 weeks' unpaid leave on the birth, adoption or illness of a child. Opposition to federally mandated parental leave was the No. 2 priority of the White House conference.

President Reagan also has abandoned his perennial campaign to abolish the Small Business Administration and nominated former Sen. James Abdnor (R-S.D.) to head the agency. Although the voting was split between two resolutions, proposals to save the SBA got more support at the White House conference than any other proposal.

Opposition from small business, said Swain, also killed a proposal to require employers to pay a tax into a state-run risk pool to cover health benefits for individuals who could not obtain private insurance; defeated a proposal to prohibit employers from maintaining union and nonunion shops, a practice called double breasting; and helped secure passage of a five-year extension of the Small Business Innovation Research program.

The House Ways and Means Committee has agreed to hold hearings on unfair competition from tax-exempt, nonprofit organizations—the No. 3 issue at the White House conference. (The No. 1 issue was the liability insurance crisis.)

Since these early victories, however, the political climate for small business has chilled a bit, warns Swain. The November elections put the Democrats in charge in the Senate, which could tip the balance on issues such as parental leave, state-run insurance risk pools and double breasting. Delegates at the Orlando meeting placed these issues at the top of their list of issues to lobby against this year.

Although the White House conference made the liability insurance crisis its No. 1 concern, Swain sees no chance that Congress will deal with the issue this session. "You would use your time more efficiently if you turned your attention to state legislatures," he advised.

Despite Swain's advice, the Orlando conferees urged renewed congressional efforts at tort reform and insurance in-

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Net HP @ RPM	100 @ 3000	–	138 @ 3200	–	–		–	
Net Torque @ RPM	213 @ 1900	–	258 @ 1900	–	–		–	
–Turbocharged	3.9L-4 Cyl.	3.9L-4 Cyl.	–	5.8L-6 Cyl.	5.8L-6 Cyl.		8.4L-6 Cyl.	
Net HP @ RPM	116 @ 3000	116 @ 3000*	–	165 @ 3000 (A)	165 @ 3000 (A)		220 @ 2500 (B)	
Net Torque @ RPM	242 @ 1900	242 @ 1900	–	335 @ 1900	335 @ 1900		542 @ 1700	
Transmission								
–5-Spd. Direct	Std.	Std.	Std.	Std.	Std.		Std.	
–6-Spd. Direct	–	–	–	Avail.	Avail.		Avail.	
–4-Spd. Automatic	–	–	–	Avail.	Avail.		Avail.	
Frame Type	Ladder		Ladder		Ladder		Ladder	
–Section Modulus	5.3		13.2		16.8		19.7	17.1
Steering–Type	Integral Power		Integral Power		Integral Power		Integral Power	
–Ratio	21.9:1		18.8-16.1		18.8-16.1		22.4:1	
Brake System	Vacuum/Hydraulic		Air/Hydraulic		Air/Hydraulic		Full Air	
Fuel Tank (Cap.)	33-Gal.		52.8-Gal.		52.8-Gal.		52.8-Gal.	
Tires–Front (Std.)	8R17.5LT (10PR)		8.25-20/10PR	8.25-20/12PR	9.00-20/12PR	10.00-20/12PR	10.00-20/14PR	
–Rear (Std.)	8R17.5LT (10PR)		8.25-20/10PR	8.25-20/12PR	9.00-20/12PR	10.00-20/12PR	10.00-20/14PR	
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dustry regulation and recommended a novel approach to the issue of product liability: pursuit of a constitutional amendment to bring about the reforms that have been deadlocked in Congress.

Surprising Results From New Business Climate Index

Turning conventional wisdom on its head, a new business climate index concludes that the rust belt is one of the best regions in the country to start a new business. Rankings that conclude otherwise simply measure the wrong things, says the *AmeriTrust/SRI Indicators of Economic Capacity.*

This most widely quoted business climate index, produced by the Grant Thornton accounting firm in Chicago, put the industrial Midwest at the bottom of its 1986 ranking. Thornton's index gives highest ratings to those states with the lowest wages, taxes and land costs. Accordingly, South Dakota has ranked as the No. 1 state on the index for the past two years, and the sun belt region tops all other areas.

But the new survey maintains that business success today depends upon more than low costs. AmeriTrust, a Cleveland-based regional banking company, and SRI International, a Menlo Park, Calif., research firm, base their index on three factors "of critical importance to making America competitive in a global economy: access to technology, skilled and adaptable labor and availability of investment capital."

"We are trying to assess the fundamentals for the changes that have taken place in the American economy over the past decade," says Steven Waldhorn, director of SRI's Center for Economic Competitiveness.

The new survey does not rank individual states. But among the nine regions surveyed, New England emerges on top of the AmeriTrust/SRI index largely because it "has more science and engineering Ph.D.s per capita and more patents awarded per capita than any other region." It is followed closely in cumulative scoring by the Mid-Atlantic, Pacific and Midwest regions. The same four regions had the lowest rankings on the 1986 Grant Thornton index.

"If what you are doing is routine and doesn't demand high skills, then what you properly should care about is low labor costs, low taxes and low land costs," says Waldhorn. "But if what you care about is transforming or emerging industries—and that covers about 80 percent of all industries—then we think the factors measured by our study are the ones that make a difference." NB

Washington Roundup

By Albert G. Holzinger

Preserving the U.S. competitive edge through strengthening of basic education is among President Reagan's priorities for legislative proposals to Congress.

An Advocate For Competitiveness

Enhanced American competitiveness in world markets is a goal shared by virtually all sectors of U.S. society.

Lawmakers, business and labor leaders, academics and tourists strolling down Pennsylvania Avenue agree that something dramatic must be done—and soon—to sharply reduce U.S. trade deficits and keep them down. But no two agree exactly how this goal should be pursued, and the competitiveness issue is already showing signs of becoming the basis for a major public-policy controversy.

What might be considered the formal opening of the debate came in President Reagan's recent state-of-the-union address. While the report he delivered to Congress and a national television audience contained only a brief reference to the issue, he also submitted to the lawmakers an 11-page summary of broad recommendations that are to be detailed in later legislative proposals. Among his key recommendations:

PHOTO: GREG PEASE—FOLIO INC.

- *Increase investment in human and intellectual capital.* This includes promoting literacy and improving basic mathematics and science skills. Other elements include creating work opportunities for needy youth, dislocated workers and the hard-core unemployed.
- *Promote development of science and technology.* This broad group of proposals is aimed at increasing the spin-off of defense technologies into the private sector, increasing funding and other incentives for private sector research and development and for commercializing exploration of space.
- *Protect intellectual property.* The President proposed legislation guarding U.S. patents and copyrights from infringement by overseas competitors. He also proposed amending the Freedom of Information Act to protect business confidentiality.
- *Enact essential legal and regulatory reforms.* This formidable list of suggested changes includes reforming product liability laws; making antitrust laws less restrictive; reducing export controls; and deregulating financial institutions, transportation and natural gas.
- *Reshape the international economic environment.* This proposal calls for such things as improving economic and monetary cooperation among industrial nations and enhancing trade relations with less-developed countries. It also calls for negotiating bilateral and multilateral trade arrangements and reforming the U.S. Foreign Corrupt Practices Act.
- *Cut the budget deficit.* The President says his fiscal 1988 budget proposal—which conforms to deficit guidelines of the Gramm-Rudman-Hollings law—will accomplish this objective, which would have a positive effect on the U.S. trade balance.

Democrats in Congress are expected to oppose many of the specific Reagan legislative initiatives and advance their own competitiveness proposals calling for trade protectionism, increased federal spending for education and deregulation of business on a less ambitious scale than that proposed by the President. In short, the competitiveness issue is likely to turn into another forum for debating the basic philosophical differences that have long separated the Republican Chief Executive and his political opponents in Congress. NB

Stop Taking Vitamins

If you think the vitamins you are now taking are doing you any good, wait until you hear the latest news on why they may not.

By Joseph Sugarman

This may come as a shock. But according to the latest research, those vitamins that you take every day may be doing you absolutely no good. For example.

FACT: Vitamins should be taken after a meal—never before. The body must first have protein, fats, or carbohydrates in the digestive tract to properly break down the vitamins for proper absorption.

FACT: Your body has a need for a natural vitamin balance. Too much of one vitamin may cause another vitamin to be less effective. For example, vitamin A should be taken with Vitamin E but excessive iron should not.

FACT: If you take too much calcium, you may deplete the magnesium in your system. And you need magnesium to convert food into energy.

FACT: Some vitamins are best taken in the morning and others at night. For example, the trace element chromium helps break down the sugar in your food which in turn creates energy—perfect to start the day. But at night you should take Calcium which has a relaxing effect—perfect for the evening.

FACT: Athletes or people who exercise a great deal need vitamins more than people who don't exercise. Vitamins are depleted at a much faster rate during exercise than during any other period of time.

But there was a series of other facts that surprised me too. For example, despite everything I've just mentioned on the care in taking vitamins, there are those people who absolutely need vitamins because of the mental or physical activity that they undergo. People on a diet, under stress, those who smoke, women who take contraceptives and even those who take medication—all rob their bodies of some of the essential vitamins and minerals that they need to help combat the various habits or conditions they are under.

And with proper vitamins in the proper balance and at the proper times, you may have more energy and vitality. Little changes may take place. Your nails may become stronger, your hair may become lustrous and your skin may remain more elastic which will keep you younger-looking longer.

DOCTORS HAD IDEA

About two years ago a group of doctors had an idea. They realized that many people were taking vitamins and not really noticing any difference in their health. They also realized that, based on the latest nutritional findings, the vitamins people were taking may not have been doing them any good. So they formed a group of advisors consisting of nutritionists, dieticians, dermatologists, biochemists and physicians, and began to work on the development of a vitamin program that incorporated all of the latest information on vitamins, minerals, nutrition, food processing—even stress research. They realized that vitamins were a two-edged sword. They could either help you or hurt you.

They then took all this information and developed the most effective combination of vitamins and minerals, formulated four tablets—one for the morning and one for the evening—and one for men and one for women and then started a test program that lasted over two years. The results speak for themselves.

It was ideal for weight loss programs and it was ideal for people under stress. It helped many increase their energy levels. Smokers benefited. Some under medication benefited. And before long MDR Fitness Corp., the company that had developed the program became, one of the fastest growing vitamin companies in the United States. And no wonder.

SEVERAL BENEFITS

With the proper vitamin and mineral balance, taken in the right quantity in the right combination and at the right time, several obvious benefits occur. First, you may develop a better mental outlook because you've got the energy and the zest to accomplish more. As a result of the trace elements copper, zinc and manganese, your body is helped to make its natural anti-aging enzymes that keep you fit. Improvements in your vitality translate into everything from better job performance to a more fulfilling sex life.

JS&A has been selected by the vitamin company to introduce their medically formulated vitamin program. Every two months we send you a two month's supply of 120 fitness tablets—one to be taken after breakfast and one after dinner.

During the first two months, you will have ample opportunity to notice the difference in your energy level, your appearance and your overall stamina. You should notice small changes. Your complexion may even take on a glow. Some of you may notice all of these changes and others may notice just a few. But you should notice some of them.

If for any reason, you do not notice a change, no problem. Just pick up your phone, and tell us not to send you any more vitamins. And if you're dissatisfied and ask for a refund, you won't even have to send the empty bottle back. It's yours free for just giving us the opportunity to introduce our vitamins. However, if you indeed do notice a difference (which we are confident you will), you'll automatically receive a two-month's supply every eight weeks.

ONE MORE INCENTIVE

I'm also going to give you one more incentive just to let me prove to you how powerful this program really is. I will send you a bonus gift of a fitness bag with your first order. This beautiful bag will hold all your fitness gear and it's great too for short vacation trips. It's a $20 value but it's yours free for just trying the vitamins. Even if you decide not to continue, you keep the fitness bag. I am so convinced that you will feel and see a difference when you take these vitamins that I am willing to gamble on it with this unusual offer.

Vitamins indeed are important. And with today's research and new nutrition technology, you have a greater chance to achieve the fitness and health levels that may have eluded you with the typical store vitamins or the poor advice we may get in health food stores or from friends. Here is a safe, risk-free way to get one of the best vitamin programs in the country, formulated by a physician, with the right combination of vitamins, minerals and trace elements, in a convenient program that assures you of delivery every two months. I personally take and highly recommend them. Order your trial quantity, today.

To order, credit card holders call toll free and ask for product number (shown in parentheses) or send a check and include $2.50 for delivery.

Men's Vitamins (1155QQS) $24
Women's Vitamins (1156QQS) 24

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COVER STORY

Leaving The Corporate Nest

By Harry Bacas

Dallen Peterson says his move from a corporate executive position to a business of his own "was like going from renting a house to owning your own home—all of a sudden you see the dandelions in the front yard."

Peterson's Omaha company, one of the many small businesses started each year by fugitives from corporate life, is now a big success. But Peterson admits he had to pull a lot of dandelions before the front yard turned a nice, profitable green.

His experience mirrors that of thousands of salaried Americans who decide the time has come for them to leave the corporate nest and try running businesses of their own. The majority find that while it takes long hours and hard work to achieve success, the financial and psychological rewards make it all worthwhile.

Although the Small Business Administration says that more than 50,000 of the 120,000 small businesses started each year do not succeed, experts say most of the failed enterprises were ill-advised. Would-be entrepreneurs who assess their situations realistically and plan their moves with care greatly improve their chances. (See "Five Steps To Independence," page 21.)

What makes so many people leave the security of the corporate nest to try their own wings? Gary Blake, whose consulting firm advises would-be entrepreneurs, says that among the principal reasons are "dissatisfaction with their present prospects, a need for independence, autonomy and growth, and a feeling they would be willing to make sacrifices to build a business they could enjoy and which would reward them directly." Blake is director of The Communication Workshop, New York, which conducts seminars to help employees make the leap from salaried jobs to entrepreneurship.

James Challenger, president of Challenger, Gray & Christmas, Inc., a Chicago-based human resources consulting firm, offers his clients advice that any

Dallen Peterson spent 13 years as a corporate employee, rising to head a major division of a national company. Now he runs his own business, Merry Maids, a professional home cleaning service with franchise operations in 42 states. Cleaning supplies are distributed from headquarters in Omaha.

PHOTOS: T. MICHAEL KEZA

Executives in large companies often are driven to start their own businesses. Although the reasons vary, the advice they offer to others with the same idea is consistent: Do your homework, expect to work hard and grow slowly.

employee contemplating the entrepreneurial life might well consider.

"When we get people who want to enter business," Challenger says, "we counsel them to go into a field they know—not necessarily the same product, but a field based on the same functional expertise. Then we get them to talk to people in that field to learn what running the business will require. People will have to do for themselves all the things they take for granted in a corporation, from marketing research to picking up the paper clips."

And they confront firsthand the full spectrum of problems that were most likely spread out among many well-staffed divisions in the companies they left behind. Among them: maintaining adequate cash flow, recruiting and motivating employees, cost containment, government regulation, development of strategies to outrun the competition and dealing with such surprises as the liability-insurance crisis.

Not everyone is cut out to go into business, says Gary Blake. "People who have no stomach for risk-taking or believe they couldn't live without a paycheck shouldn't do it," he says. (See "A Pre-Flight Checklist," page 18.) "Nor should people who have a low tolerance for rejection.

"On the other hand," Blake continues, "a good prospect will have some sense for marketing and promotion and the ability to see the entire business process. Most of all, it takes perseverance."

Dallen Peterson knows about perseverance. After leaving his job as division manager for a national food company, he had to go into business twice to find lasting success. He started a snack foods company, drawing on his experience in a corporate job, but had to sell it at a loss when the industry ran into problems.

Despite the setback, Peterson rejected offers to return to corporate life. "I had had a taste of running my own business," he explains. "I liked that feeling of 'I did it on my own.'" So he started another business in a brand-new field, professional home cleaning, and his Merry Maids company is now the biggest of its kind, with franchise operations in 42 states.

And, he points out, more than half of his 400 franchisees are former corporate employees who wanted to get into businesses of their own.

The story of Peterson's conversion from executive to entrepreneur is one of the many case histories that illustrate what others might expect if they leave the familiar world of their 9-to-5 salaried jobs for the uncertainties and risks of their own businesses. Some others whose experiences offer insights on what might be expected in that transition:

- Bob Phipps, a California native who left a mine-engineering job in Bismarck, N.D., to grow bean and alfalfa sprouts in San Antonio, Tex. He advises prospective refugees from the corporate world to first work for someone in the same line they are planning on entering. "Make your mistakes on their money," Phipps says.
- Pat Thompson, who quit her salaried job as a broker for televison properties to form her own company in Denver and now has eight brokers working for her in arranging sales of cable and broadcast operations. The transition was "a long, hard struggle," she recalls, but "the feeling of accomplishment" that resulted made it all worthwhile.
- Don Jacobs, a Kentuckian who sold advertising magazines all over the Southeast and now distributes his own line of gourmet Cajun spices from Gonzalez, La. "The first year I lost money," he says, but the business is now profit-

Bob Phipps (left) supervises production of bean sprouts at his plant in San Antonio. His first company, formed after he left a mine-engineering job, was, he says, a "disaster." But growing sprouts has proved to be a good business.

able. "Last year, I hit $180,000 in sales, and this year it looks like we'll double that."

These business people came from different backgrounds, and they have gone in different directions, but they had one thing in common—a yearning for independence, growth, self-fulfillment and a better life. Each one's success, large or small, was built less on money than on hard work, long hours, the flexibility to meet changing situations—and a determination to reorient their lives toward greater independence.

Dallen Peterson knew as a boy that he wanted to go into business. Growing up on a farm in New London, Minn., he says, "I used to think of breaking out of rural life, making more money. By the age of 10, I had a dream of carrying a briefcase, although I didn't know what was in that briefcase."

He went to work after two years in the Army and four years of college for a national dairy and snack foods company, Fairmont Foods in Omaha. He stayed 13 years.

By age 26, he was a plant manager in the snack foods division. And by 33, he headed the division, one of the most profitable in the corporation. But eventually the company decided to move its corporate offices from Omaha to Houston, "and my wife and I wanted to stay in Omaha," Peterson says. They had five children, some in their teens.

"I loved the job. The work was great. But the lifestyle was awful. I was on the road so much I was giving up more of family life than I wanted to.

"I had also become disenchanted with corporate life. I saw that the closer you got to the top, the more vulnerable your position became."

Peterson decided to start his own snack foods company.

He cashed in his profit-sharing retirement benefits, obtained a loan at a local bank and drew on his savings.

He kept the business seven years. Then costs, especially of potatoes, were driven up by a world oil crisis, while prices were kept down by competitive pressures. Peterson's profits disappeared. He sold the company at a loss.

Then he took six months off to figure out what to do next.

"I wanted to make sure the next business I got into had a future," Peterson says.

"All indicators pointed to services. A service business also has low capital investment, regular cash flow, low inventory and a large customer base.

"I could see that 45 percent of women were now employed outside the home, and I wondered, 'What service can we do for them?' "

His wife, Glennis, helped him find the answer: a professional cleaning service for the homes of working women.

The Petersons distributed fliers announcing the availability of the "Merry Maids." When the calls came in, Peterson and his wife took mops, rags and vacuums and cleaned the first homes themselves. Then he bought more equipment; his wife wrote out cleaning routines, and they hired workers.

For a while they kept overhead low by operating from their home. But as business increased, neighbors began to complain about so many workers' cars arriving every morning (two people for each cleaning crew) to pick up their equipment and the day's assignments, and the business had to move.

Pat Thompson, standing by a satellite antenna, deals in cable systems. She formed her own brokerage when her corporate job seemed to be at a dead end.

PHOTO: T. MICHAEL KEZA

They learned as they went along. "I lost my shirt on the first jobs," Peterson says, "because I hadn't worked out a system of job bidding." He also learned that his service should not include dishes, laundry or wall scrubbing.

Peterson refined his system, hired more workers and established a workable pricing system. Business soon was doubling every month, and after a year, he decided to franchise. He sold eight franchises the first year and 23 the next. Eventually franchise sales were coming in at two a week.

Now the 400 Merry Maid franchises in 42 states employ 4,000 people. Many franchisees do $250,000 in business a year and some do over $500,000. The company provides each with management seminars, exclusive software, marketing agreements, videotape training, operations manuals and supplies.

Peterson says more than half of his franchise owners have come out of corporate life, just as he did.

But it is rare, he says, that a person going from a corporate job into business will have had exposure to all facets of business operations. One surprise will be the discovery of the critical nature of cash flow.

"Cash flow," he says, "means you meet the payroll on Friday and still can buy groceries on Saturday."

He believes a franchise can be "a very important vehicle for success" because it gives a new business person both his independence and the assistance and support of a large business organization. (See "The Franchise Route," page 20.)

"If I were doing it again, I'd become a franchisee," he says. "You're not so lonely. You can talk with your peers, and they aren't your competition."

Bob Phipps and his wife, Jane, are co-owners of Energy Sprouts in San Antonio, Tex. The firm supplies all of south Texas and much of Louisiana with fresh bean and alfalfa sprouts and other specialty produce. Their path to San Antonio was bumpy and, like Dallen Peterson's, included the failure of an earlier business.

Phipps, a native of Long Beach, Calif., graduated from the University of Colorado with a degree in business and finance. His first job after graduation was in the office of a Vancouver, Wash., industrial contractor who installed coal mine machinery. Phipps

Don and Phoebe Jacobs test recipes in their kitchen before adding to their line of gourmet seafood seasonings and dry mixes. They run the company out of their home in Gonzalez, La. Don used to be an advertising salesman. Now he sells his own products.

PHOTO: T. MICHAEL KEZA

eventually became a field supervisor with assignments to mines from British Columbia to Florida.

He married and became a father during the course of that job, leaving it because the travel demands kept him from home. He took a job at a North American Coal Company mine near Bismarck, N.D., where he would supervise machinery operation.

"I knew six hours after I took that job that I wouldn't like it," Phipps says. "I had lost my independence."

In his previous job, he explains, "the corporate office sent you out to do a job and you got it done. You were on your own 80 percent of the time. But here in the mine you only filled a slot in the corporate flow chart.

"I did the job, but I wasn't getting any fulfillment. My personality deteriorated; I became a bear to live with, and I hated myself."

He decided that what he really wanted was "a small company where I could be the expert and do it myself."

One day a fellow employee, Carter Berg, a young, recession-hit farmer from South Dakota, showed Phipps an article in a farm magazine about a college researcher who was growing wheat sprouts for chicken feed. The process involved rotation of a container on a horizontal axis to give the grain sprouts equal exposure to water and to air.

Phipps was intrigued and wrote to the researcher to learn more. He wondered whether he and Carter could make a rotation machine and sell it to health-food enthusiasts who wanted to grow alfalfa and bean sprouts.

Research showed that rotation-grown sprouts were already being sold, "so we knew the process was viable," Phipps says.

They built a home rotator with a mayonnaise jar, wood dowels and a second-hand timing motor. They put alfalfa seeds and water in the jar, and the process produced alfalfa sprouts.

They decided to manufacture rotators. They each invested $7,000 and rented 1,200 square feet in a Bismarck warehouse. They incorporated the company as National Grain Farmstead "to give it an earthy sound." They took out ads offering to sell their "Sprout Spinner" plus seeds, recipes and instructions for $14.95 plus $2 postage and handling.

They figured their break-even point would be 2,000 units. They sold 200.

Orders dwindled and they couldn't afford more ads. Their business was at a

A Pre-Flight Checklist

Do you really want to leave the corporate nest for an independent life?

There are lots of rewards to be gained by being on your own, but there are penalties, too.

One of the first steps in deciding whether to leave salaried employment to run your own business is to take stock of your attitudes, to analyze your feelings about the changes that will ensue.

Here is a checklist to help you evaluate how you feel about the benefits of autonomy against the drawbacks.

Go down the first part of the checklist and put a plus sign next to the benefits that are important to you. Then move to the second part of the list and put a minus sign next to every drawback that seriously concerns you.

If the minus signs outnumber the plus signs, say consultants Robert W. Bly and Gary Blake, "security is probably dearer to you than autonomy, and you might be happier staying where you are."

Benefits of Autonomy

( ) Can make more money
( ) Work when you please
( ) Work at home
( ) Make decisions without consulting others
( ) Being a big fish, even if it is in a little pond
( ) No co-workers to contend with
( ) Flexibility of small business
( ) Can take risks and reap rewards
( ) Tax savings
( ) No boss to cater to
( ) Can do as you please
( ) Can pick your own projects
( ) Freedom from boredom

Drawbacks of Autonomy

( ) No regular paycheck
( ) Longer hours
( ) Need to supply your own office
( ) No one to bounce ideas off
( ) Loneliness
( ) Absence of financial resources of a large corporation
( ) Can suffer personal financial loss if the business fails
( ) No corporate perks or benefits
( ) Must answer directly to clients
( ) Responsible for running a company
( ) Must be motivated enough to work without supervision
( ) Hectic, demanding schedule
( ) Miss being in a big pond

From Out on Your Own: From Corporate to Self-Employment, *by Robert W. Bly and Gary Blake, © 1986 by John Wiley & Sons, Inc.*

Vision Break-through

When I put on the pair of glasses what I saw I could not believe. Nor will you.

They look like sunglasses.

By Joseph Sugarman

I am about to tell you a true story. If you believe me, you will be well rewarded. If you don't believe me, I will make it worth your while to change your mind. Let me explain.

Len is a friend of mine who has an eye for good products. One day he called excited about a pair of sunglasses he owned. "It's so incredible," he said, "when you first look through a pair, you won't believe it."

"What will I see?" I asked. "What could be so incredible?"

Len continued, "When you put on these glasses, your vision improves. Objects appear sharper, more defined. Everything takes on an enhanced 3-D effect. And it's not my imagination. I just want you to see for yourself."

When I received the sunglasses and put them on I couldn't believe my eyes. I kept taking them off and putting them on to see if indeed what I was seeing through the glasses was indeed actually sharper or if my imagination was playing tricks on me. But my vision improved. It was obvious. I kept putting on my cherished $100 pair of high-tech sunglasses and comparing them. They didn't compare. I was very impressed. Everything appeared sharper, more defined and indeed had a greater three dimensional look to it. But what did this product do that made my vision so much better? I found out.

DEPRESSING COLOR

The Perception sunglasses (called BluBlockers) filter out the ultraviolet and blue spectrum light waves from the sun. You've often heard the color blue used for expressions of bad moods such as "blue Monday" or "I have the blues." Apparently, the color blue, for centuries, has been considered a rather depressing color.

For eyesight, blue is not a good color too. There are several reasons. First, the blue rays have one of the shortest wavelength in the visible spectrum (red is the longest). As a result, the color blue will focus slightly in front of the retina which is the "focussing screen" onto which light waves fall in your eye. By eliminating the blue from the sunglasses through a special filtration process, and only letting those rays through that indeed focus clearly on the retina, objects appear to be sharper and clearer.

The second reason is even more impressive. It is not good to have ultraviolet rays fall on our eyes. Recognized as bad for skin, uv light is worse for eyes and is believed to play a role in many of today's eye diseases. In addition, people with contact lenses are at greater risk because contacts tend to magnify the light at their edges thus increasing the sun's harmful effects.

Finally, by eliminating the blue and uv light during the day, your night vision improves. The purple pigment in your eye called Rhodopsin is affected by blue light and the eyes take hours to recover from the effects.

SUNGLASS DANGER

But what really surprised me was the danger in conventional sunglasses. Our pupils close in bright light to limit the light entering the eye and open wider at night—just like the aperture in an automatic camera. So when we put on sunglasses, although we reduce the amount of light that enters our eyes, our pupils open wider and we are actually allowing more of the blue and ultraviolet portions of the light spectrum into our eyes.

BluBlockers sunglasses are darker at the top to shield out overhead light. The lens used is the CR-39 which most eye doctors will tell you is one of the finest materials you can use for glasses and is manufactured under license.

The frames are some of the most comfortable I have ever worn. The moulded nose rest will fit any nose. The hinge causes the frames to rest comfortably on your face and can be adjusted for almost any size face.

We also have a clip-on pair that weighs less than one ounce. Both come with a padded carrying case and an anti-scratch coating.

I urge you to order a pair and experience the improved vision. Then take your old sunglasses and compare them to the BluBlockers. See how much clearer and sharper objects appear with BluBlockers. And see if your night vision doesn't improve as a direct result. If you don't see a dramatic difference in your vision—one so noticeable that you can tell immediately, then send them back anytime within 30 days and I will send you a prompt and courteous refund.

DRAMATIC DIFFERENCE

But from what I've personally witnessed, once you use a pair, there will be no way you'll want to return it.

Astronomers from many famous universities wear BluBlockers to improve their night vision. Pilots, golfers, skiers, athletes—anyone who spends a great deal of time in the sun have found the BluBlockers indispensable.

Our eyes are very important to us. Protect them and at the same time improve your vision with the most incredible breakthrough in sun glasses since they were first introduced. Order a pair or two at no obligation, today.

To order, credit card holders call toll free and ask for product by number shown below or send a check plus $4 for delivery.

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COVER STORY

Mike Bradley (right), a former Navy and airline pilot, had a good job as a corporate salesman, but he felt it didn't use his administrative and management abilities. So he bought one of the corporation's store franchises, in Duluth, Minn., and now runs his own home and office decorating store. At left is his sales manager, Rick Wallin.

The Franchise Route

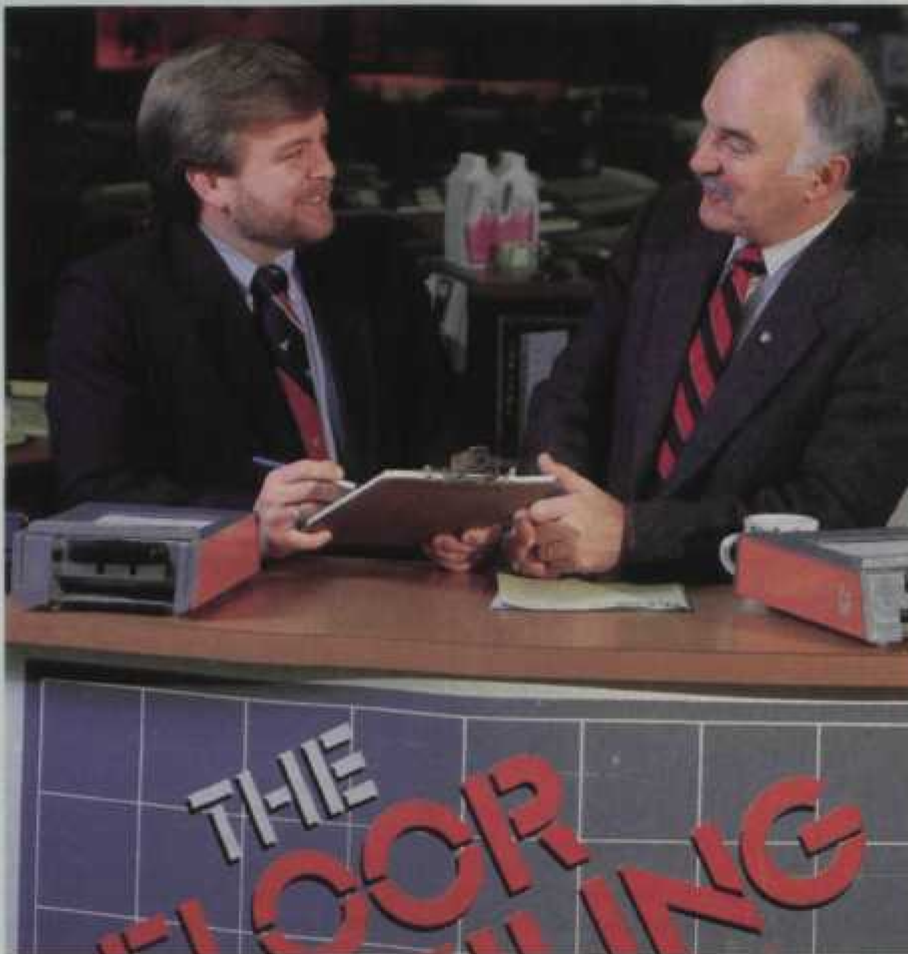


PHOTO: STEVEN STEARNS

When Mike Bradley was a Navy pilot, he never thought about being an independent business person. But a series of unexpected career changes turned him into one.

Bradley, now 49, left the Navy in 1968 for a stint as a second officer for Northwest Airlines and then was put out of work by a pilots' strike.

"When I went into the job market after the strike, I was overqualified for everything—including pumping gas," he says. A close friend made a call to Rudy Boschwitz, at the time owner of Plywood Minnesota, a Minneapolis-based chain of do-it-yourself stores. Boschwitz, now a U.S. senator, hired Bradley sight unseen as a salesman.

Bradley turned out to be good at selling, earning company awards as a top salesperson for two years. Boschwitz, impressed, kept Bradley on by offering him the middle management job of training director of Plywood Minnesota's franchise division.

As a middle management success who impressed the owner with his abilities, Bradley could have been expected to work contentedly for the rest of his career. But he was still curious about testing his own abilities, and another accident gave him an opportunity.

"In 1974, the existing franchisee in Duluth decided that he wanted to sell his franchise," says Bradley, and that started him thinking. "I had a lot of leadership and management experience in the Navy, and I began to realize that the position I was in was very limiting in the amount I could earn. I also felt I could use my experience, work to my fullest potential, make more money and be more job satisfied working for myself."

And one other thing: "Basically, I guess it was the old feeling that I can do better than the fellow who's in there," says Bradley.

Bradley bought the franchise, and has never looked back, even when the franchise division was bought out by George Scheer and made into Floor to Ceiling, a home and office decorating store. Bradley has nothing but praise for the new owners and has done well, despite some hard times because of a deep recession in farming and the steel industry around Duluth.

Franchising may be an ideal road for middle managers who want to operate their own businesses. Franchisors often say that successful business people working for large companies are an ideal target for them. And the franchisee has a little more assurance of success.

"Franchises that have been discontinued have been averaging a rate of under 4 percent," says Andrew Kostecka, the franchising expert for the U.S. Commerce Department. "That is much better than the average for independent small businesses. The reason is the system. The franchisor is in the store checking everything out, watching you, helping you, seeing that you're making money."

The business person thinking of buying a franchise should be aware that there are costs in addition to those of the nonfranchise start-up: a franchise fee that can run to $50,000 or higher, monthly royalties (usually about 5 to 7 percent of the gross) and monthly advertising fees. For those fees, franchisees get to run a business that has been proven to work and that has a national presence, a lot of training, some hand-holding, manuals and centrally created advertising. A nonfranchised start-up has to create its own advertising and signs.

For those who are interested in starting their own businesses, however, franchising does not take away the anxiety or hard work required for success. "In hindsight," says Bradley, "I'd say that if you don't have the stomach for wondering if you can make payments, it's a challenge to take it upon yourself to assume responsiblity. Some people are very comfortable with a regular salary."

On the other hand, he says, because of the change from Plywood Minnesota to Floor to Ceiling, conditions at the parent company are quite different. "I would say that if I had stayed with Plywood, there's an 80 to 90 percent chance that my job would not be there." So much for job security and a regular salary.

And that may be the ultimate reason for being in business on your own: The boss is not likely to lay you off.

Leaving The Corporate Nest

standstill. Berg still had his mine job but Phipps was out of work. "What are we going to do?" he asked Jane.

"Let's just grow sprouts!" she said. Even if they couldn't sell spinners, they could still use the process.

Jane, who had a college degree in marketing and a job as host on a television talk show, had interviewed grocery managers and found that area chains would buy fresh alfalfa sprouts (which have a shelf life of only three days) if they could get them.

So the partners constructed a giant rotator using 40 one-gallon jars they got from restaurants and a motor taken from a barbecue rotisserie. The sprouts began to sell, at 50 cents a pound for bean and $1.25 a pound for alfalfa, and they had to build a larger machine.

With all their work, they couldn't seem to get out of the red. "We had all the business in North Dakota," says Phipps, "and we still hadn't taken any money out of the business for ourselves. It all went into overhead—bags, boxes, delivery expenses. In short, we were doing lousy.

"We had taken a second mortgage on our house and had a debt on the truck and on the warehouse. Carter wanted to leave and go back to his farm; he couldn't afford the commute."

Phipps was ready to throw in the towel when his sister in San Antonio, who knew of their problems, sent plane tickets for Bob and Jane and their two children to visit her for Thanksgiving, 1981. In a San Antonio grocery, the couple saw sprouts for sale, grown by "roto culture" in California. Jane asked the manager if he would prefer to buy his sprouts from a closer supplier. He said he would.

Bob Phipps began to get new ideas. More people lived in San Antonio than in the whole state of North Dakota. He applied to a bank for a $27,000 small business loan. It took a long time ("bankers understand shoe stores, not crazy things like growing sprouts"), but he got it.

Back in Bismarck, Carter Berg sold the National Grain Farmstead business to buyers who took over its debts and paid the two founders $2,000 each, plus $150 a month for three years. So Phipps had money coming in while he moved the family south in a van.

He rented a 3,000-square-foot warehouse, bought machinery (somebody else was making rotators now), ordered logos, boxes, bags and seeds, and started taking orders. He and Jane visited produce managers to stage demonstrations. They soon were shipping "more sprouts in three days than we did in one month in North Dakota," Phipps says. At last he could start paying himself a salary.

The company now has its own 10,000-square-foot building, with separate rooms for alfalfa and bean sprouting. It sells 15,000 pounds of bean sprouts and 5,000 pounds of alfalfa sprouts a week. Lately it has branched into other small produce items like small-bud cauliflower and broccoli.

There are 20 employees, and sales last year were $1.3 million.

Phipps has this advice for other would-be entrepreneurs:

1. "You have to work for other people first and make your mistakes on their money. You need to watch others, to see why one person succeeds, what he did right, and why another fails."

2. "Don't set your goals too high. There's no easy money."

3. "Keep your options open, be flexible. Making that spinner machine was a total disaster, but we survived it."

4. "Start out slowly. Accept making less money for a while, so you can keep control of your business."

5. "Get a board of directors, people who are interested in your well-being and who will give you straight answers."

The $700 a month she was making as an office manager in Bozeman, Mont., was not enough to support her three children, so recently divorced Pat Thompson returned to Denver, where she had spent part of her childhood. " I was going to the big city to seek my fortune," she recalls.

She went to work for Jones Interca-

Five Steps To Independence

Leaving a corporate job to run your own business involves five stages, say consultants Robert W. Bly and Gary Blake, who conduct seminars to prepare would-be entrepreneurs for the world of self-employment. They recommend these steps for those considering their own businesses:

1. Analyze the reasons you are unhappy with organizational life. Is it because you hate your boss, you do not have a sense of accomplishment, you are not rewarded for initiative or your work does not reflect your real interests? Are you ready to take charge of your life? Do you realize that a positive attitude, hard work and a challenging goal can probably bring you success?

2. Assess the options. Do you have a business plan? You can start a small business, buy a small business or go into consulting or free-lancing. Alternatives are moonlighting, job sharing, franchising, working part time or working for somebody else's small company. Get advice from people you trust and make a list of pros and cons. Decide early whether you are willing to go into debt and how deep.

3. Plan your escape. Start saving money as an income cushion. Study everything in your present job that will help your new career. Write a step-by-step plan, including goals, operations, resources and a timetable. Estimate start-up and operating costs. Consider home office or rented space, buying or renting furniture and equipment. Plan services—messengers, typing, printing, accounting, legal.

4. Escape! Don't resign until you are financially and emotionally ready, with health and life insurance to replace company benefits you will lose. Give a month's notice. Be firm but friendly. Cooperate with your replacement and tie up loose ends. Don't boast about your new venture.

5. After escape, keep active, be businesslike, print a brochure, get your company listed in directories. Relax; you're not going to make a million dollars the first three weeks. Set priorities for use of your time, but include some personal time each day. Go after clients professionally, but get the first one soon, even if you have to work for free or very little. A good product or service is not enough. It needs public recognition. That means public relations, associations, networking. Get accounting help to manage credit and collections and plan quarterly tax payments. Monitor expenses, employee performance, customer satisfaction, revenues and profits. The same creative energy it took to start the business will help find solutions to its problems.

ble, a national firm that owns and operates cable television systems. She demonstrated a grasp of the intricacies of buying and selling broadcast properties, qualified as a broker and four years after she started was the company's vice president for acquisitions.

"I saw all these deals coming in, and I wanted to be on commission," she says. "But they wouldn't let me. They wanted me to be on salary. That doesn't leave you much incentive or chance for growth. Besides, a woman working for a corporation doesn't have all the opportunities a man does.

"I couldn't go to another cable company. At that time, I was the only woman in the country brokering cable. So I said, 'Why not take a chance and do it on my own?' "

It wasn't an easy decision. "I was divorced, I had children, and I had to make sure we ate. But I did what I felt I had to do. I was at a dead end."

She opened an office in a building where she could share telephone and secretarial services with other tenants. She lived on a monthly draw provided by industry friends who had agreed to back her venture.

That year, 1982, business was terrible. Interest rates were 18 percent, and the market in cable systems was dead.

"I closed only one deal, and I thought, 'Is this how it's going to be?' But the next January I closed another deal and that was it."

Two years later, she was able to buy out her partners for their $110,000 investment and became sole owner of the Pat Thompson Company.

Her sales soared to 11 in 1985 and reached 32 last year, for a gross of $150 million.

Her company has 11 employees, including eight brokers (all male), and her monthly office overhead is $87,000, more than her total budget in her first year in business.

She says the operation of a successful business provides her with many rewards. There is great satisfaction, she says, in "the knowledge that you could go out and put together a million-dollar deal."

Pat Thompson doesn't think she could have done it without the experience of those corporate jobs.

"At Jones I learned an awful lot," she says. "I learned that when you are negotiating a deal in a room full of attorneys—all of them men—and you see something that's not right, you speak up, even if you are a woman. Actually, being a woman has been an advantage. Men have bigger egos, and that can sometimes keep a deal from being settled, whereas a woman usually can compromise better."

Another thing, she says, is that "when you start out on your own, you're afraid to let people know you don't have the answers. So you go out and screw up. Eventually you learn you can ask questions.

"When you start out on your own, you're afraid at first to let people know you don't have the answers. So you go out and screw up. Eventually you learn you can ask questions. If I were doing it again, I would not be undercapitalized; I would have more money to start with. And I would have a board of directors to give me guidance."

—Pat Thompson of Pat Thompson Company

"If I were doing it again, there are two things I would do differently:

"I would not be undercapitalized; I would have more money to start with.

"And I would have a board of directors to give me guidance."

For Don Jacobs, as for Dallen Peterson and Bob Phipps, going into business was a man-and-wife effort.

Call the home-based company in Gonzalez, La., and Phoebe Jacobs greets you with, "Gourmet Spices, God bless you."

The company is only two years old. Its full name, Gourmet Spices by LaDon, and its motto, "Tres Bien (Very Good)," were chosen "to sound French" and to emphasize the Cajun style of its line of seasonings and dry mixes for frying fish and making gumbos, étouffés and jambalayas.

Neither Don nor Phoebe is French, but they have lived in Louisiana's French-speaking Cajun country for 20 years.

Don Jacobs worked for 10 years as Southeast sales manager for a national publishing company producing advertising magazines for auto dealers and other businesses. As a sideline, Jacobs published a cookbook using Phoebe's Cajun recipes.

One place that carried the cookbook was a local wholesale seafood market. It also produced a line of seafood seasonings. The owner asked Jacobs about working for him on the seasonings line. "I told him no," Jacobs says, "because his product and his packaging were not attractive."

However, the two worked out a deal under which Jacobs would join the company with responsibility for creating new products, improving the recipes, redesigning the packages and selling the products.

Four years later, Jacobs suffered a stroke, which caused a temporary paralysis. Though he recovered, his former employer did not want him back.

"What was I going to do?" Jacobs asks. "I was out of work. I couldn't get a job. I was nearly 50.

"So I decided to start my own seasonings company. I borrowed $36,000 and kept 51 percent of the stock, and I arranged for Flavorite Laboratories [a national spice and flavorings manufacturer and packager in Memphis] to do my production."

Jacobs designed his logo, a grinning alligator in a chef's hat stirring a pot. He bought printing dies to put the logo and lettering on the laminated foil, paper and poly bags he ordered from suppliers in Wisconsin and California.

He supplied Flavorite with his recipes for the cornmeal, spices and other ingredients that go into the mixes. Flavorite manufactures the mixes, packages them in his bags and delivers the finished products to his warehouse. From there, Jacobs ships them to his customers.

"I have distributors in eight states in the Southeast, and stores as far as California buy direct from us," he explains. "We also get a lot of retail mail orders, mostly from word of mouth."

Jacobs says leaving the corporate nest to start his own business has not been easy, but the rewards have been great.

"I made some mistakes that I could have avoided by getting more advice in the beginning," he says. "But now, the satisfaction of being on my own and running a successful business makes all that trouble seem worthwhile." NB

To order reprints of this article, see page 65.

MANAGING YOUR BUSINESS

Computerizing With Confidence

part 5

By Karen Berney

Controller Robert Paulissen assumed the computerized bookkeeping system he chose for his company in 1984 would serve for a long time.

In less than a year, however, members of the accounting staff of Erta, Inc., a $5-million-a-year wholesaler of customized plastic products, had to take turns entering data at their only personal computer terminal. Erta's sales grew, and the backlog got worse. The Exon, Pa., firm had learned what many others are learning: You can outgrow even a well-thought-out computer system.

"It was clear to us all," Paulissen says, "that, rather than speeding us up, the computer was slowing us down." One machine was not enough for several employees to post accounts receivable, update accounts payable, check on inventory and write orders. They all needed access to all the data all the time. But Erta also wanted to preserve its original investment in software and training.

Paulissen's solution was a local area network (LAN) of a dozen new personal computers cabled to a file server, which is a souped-up PC that serves as a data traffic cop. For $1,295, Erta was able to upgrade its popular entry-level accounting software package to operate on a network. The file server and PCs added up to over $26,000, and the network software cost another $2,000.

The conversion to a LAN, says Paulissen, was relatively easy. For the past year, the network has been supporting 12 users—four in accounting and the rest doing word processing, computer-aided design and spreadsheets. PCs can be added where and when needed.

A LAN is the ultimate upgrade. Until recently, many companies invested in them in order to justify such costly hardware purchases as printers or hard disk drives. Those high-ticket items were practical only if several users could share them, so converting to a network justified the expense. But prices for printers and hard disk drives are falling. As a result, says Donald Hockney, chairman of the computer sciences department at the Polytechnic Institute of New York and a consultant on business systems, buying a network today for the sole purpose of utilizing

In a computer network, chaotic communications are smoothed out by giving each worker a PC with access to common files of information. This boosts both individual and group productivity.

printers or disk drives "would be like using a mallet to kill a fly."

If you want to consider a network, "obtaining the services of a reputable consultant or dealer is absolutely essential," says Russell Frye, director of the Boston Computer Society's Network Group. Good advice, he insists, will save you a grueling amount of time and agony and perhaps thousands of dollars on poorly chosen equipment.

Even if your business is small enough to work with a single PC straight out of the box, you almost certainly will want to take advantage of the increased speed and capacity becoming available at increasingly lower costs.

The more you use a PC, say experienced business computer veterans, the more you will want to do with it. Unfortunately, the basic PC has limited capacity; the more information you feed it, the longer the machine takes to digest it. As your data grows, it might take your PC 40 seconds to fetch a file that used to pop up in 10, and you will be searching for ways to regain the original speed while processing more data.

One quick fix is a hard disk drive, which has far greater storage capacity and speed of operation than a floppy disk drive. Adding a 10- or 20-megabyte hard drive will speed routine computer tasks—for example, retrieving data files—at a cost of $375-$500.

But there is another speed limit set by the machine's microprocessor, the chip that actually does all the computing work. Early generation machines use a slower chip that can be updated with a newer one residing on a chip-covered board dubbed a turbocharger. This slips into a built-in slot inside the PC, which can have as many as five to seven such slots for extra boards.

There are two types of turbochargers. One type, ranging in price from $150 to over $1,000, is actually a tiny computer on a card, replacing the slower microprocessor. The other, more expensive, alternative is called a coprocessor, because it runs in tandem with the machine's existing chip. Coprocessors are favored

for scientific or engineering purposes, or by the demanding aficionados known as power users.

Turbocharging can yield dramatic results, says Robert Hurt, product manager at Orchid Technology, Inc., a leading turbo board vendor in Fremont, Calif. Hurt cites the case of an accountant who had to post 700 accounts for a client in a rush job. At a processing rate of 12 seconds per record, the task would have taken him 2 hours and 20 minutes to complete on a plain vanilla PC. With a turbocharger, the accountant finished the job in 40 minutes.

But turbochargers, cautions Jeffrey Sachs, president of the Computer Consultants Association in St. Louis, do not work in every machine. The Apple Macintosh—which already has a faster microprocessor than the standard IBM PC—uses a closed architecture that prevents adding boards, although the next generation Mac will accommodate them. Companies planning upgrades via boards should also be aware that some IBM clones reject add-ons.

Furthermore, turbocharging is usually a temporary solution, adds Sachs. Though it will give a swift kick to an IBM XT, for instance, it will not, despite some vendors' claims, boost it to the level of the more powerful and versatile IBM AT, he says.

Finally, beware of technological overkill. If you are not getting the speed you want for Lotus 1-2-3 calculations but your other software programs are fast enough, you may want to boost Lotus rather than the entire computer. For that, the Cambridge, Mass., firm offers a 1-2-3 enhancement program, Speedup, for less than $100.

Scores of enhancement programs for the three mainstay categories of programs—spreadsheets, databases and word processors—are frequently reviewed in trade publications. Some have become as standard as the programs they enhance, and consultant Hockney strongly recommends a few.

Topping his list are two programs from Peter Norton Computing, Inc., Santa Monica, Calif.: the Norton Utilities, which recovers accidentally erased data from a floppy disk, and the Norton Commander, which helps users organize large numbers of files on a hard disk.

Hockney also praises such productivity software as Sideways (Funk Software, Inc., Cambridge, Mass.), which prints a spreadsheet sideways so that more columns will fit on a page; and Turbo Lightning (Borland International, Inc., Scotts Valley, Calif.), a spelling checker and thesaurus for word processing programs.

Hard disk users, says Hockney, should consider backup programs that copy files from a hard disk onto floppies, helping to conserve hard disk storage space and to protect data from accidental loss. Fastback (Fifth Generation Systems, Inc., Baton Rouge, La.) and X-Tree (Executive Systems, Inc., Sherman Oaks, Calif.) are leaders in the field.

Beyond speed and file management, many users are finding that they want to make more use of graphics than the unenhanced PC can manage. The Apple Macintosh features a built-in graphics capability that, along with ease of learning, has been the basis of its success.

To display monochrome graphics on a standard PC, you need to install a graphics board; displaying in color requires buying a new color monitor (for about $700) as well as a color board and graphics software that will run it. The industry standards for boards are IBM's $275 Color Graphics Adapter at the low end and its $500 Enhanced Graphics Adapter at the high end, and the $300 Hercules Graphics Card (Hercules Computer Technology, Inc., Berkeley, Calif.) for high-resolution monochrome graphics and text.

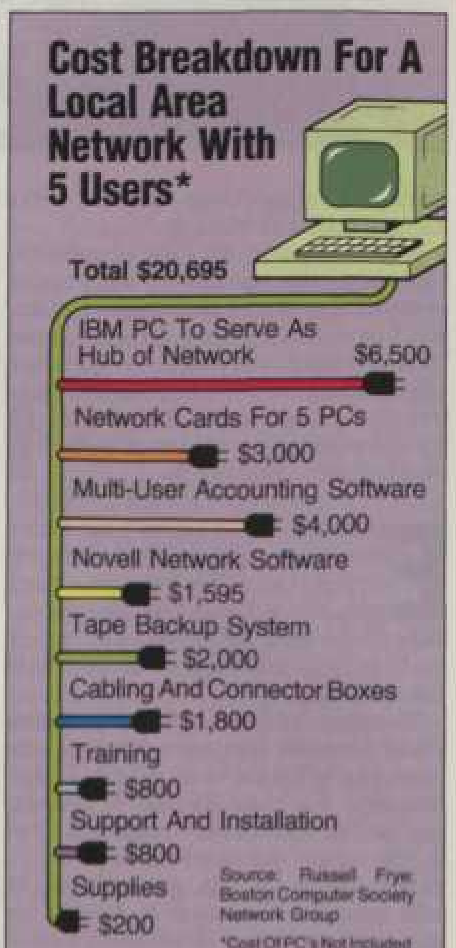


CHART: WARREN ISENSEE

As more offices are equipped with PCs, businesses are adding modems, which allow machines to exchange data over phone lines. Modems are getting faster, but not all use the same standards for coding data. Mastering the communications software that arranges for the swap can be tricky as well.

But for companies that have special communications problems, modems can be useful tools, as Dataradio, Inc., a Montreal, Canada, manufacturer of communications equipment, discovered. "We have 16 branch offices in the United States; so we used to make 16 paper copies of everything, stuff envelopes and drop them in the mail," says Product Manager Bram Frank. Now that each office has been equipped with a $200 modem (they already had PCs), Dataradio makes only one copy of correspondence, hits a few buttons and zaps it to its destinations in minutes.

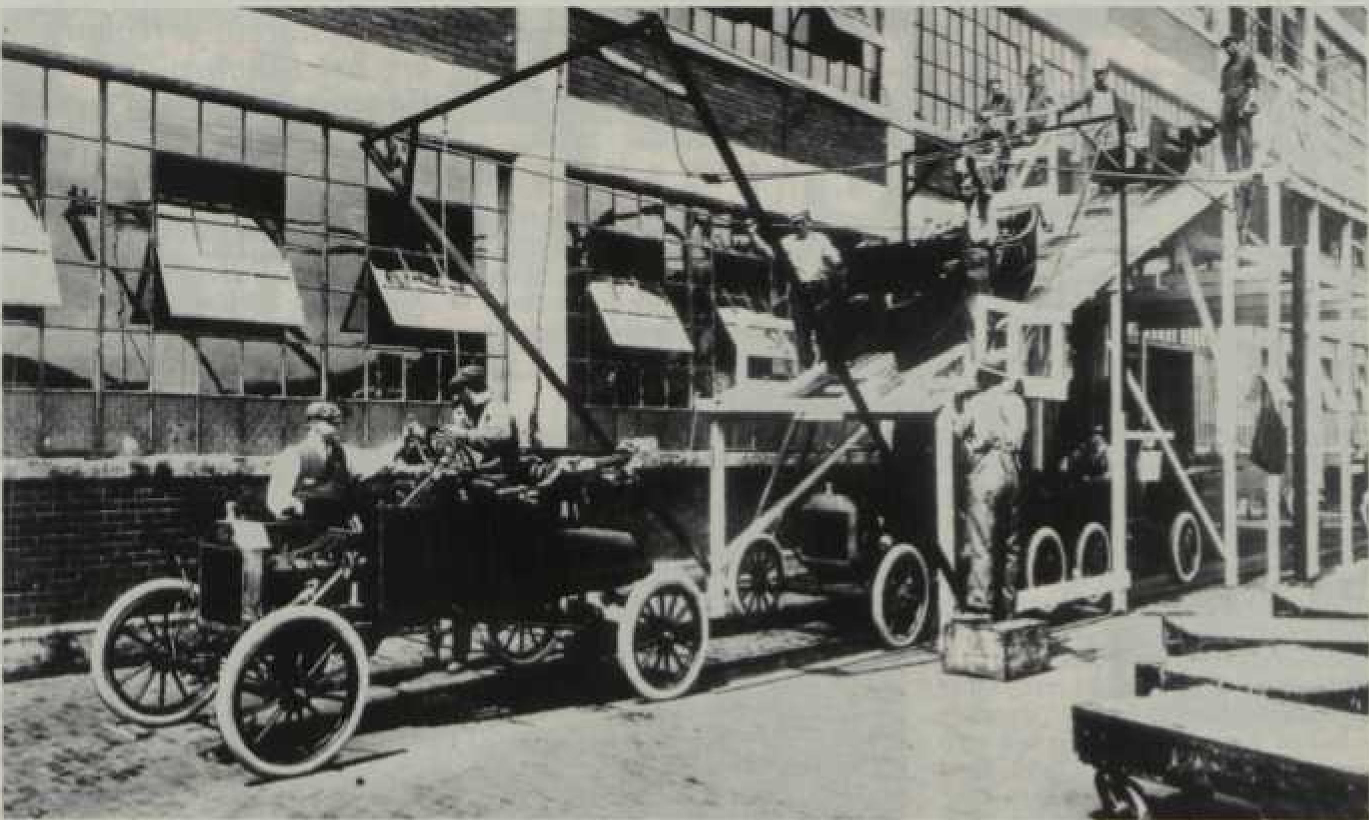
Modems are also the gateway to an on-line information bazaar where you can tap a wealth of resource material no small business could otherwise afford. On-line database services—the best known are Lexis/Nexis, CompuServe and The Source—charge an initial subscription fee and then bill clients per on-line minute. These services offer such a variety of useful and interesting material that office managers need to monitor them for excessive use.

Whatever route you take in upgrading your system, modernization can keep you abreast of new developments for a long time. But there will probably come a time when it is no longer economical. "Only you know when you can no longer live with your computer," says the Computer Consultants Association's Sachs. The clue, he says, is cost: When adding enough to your old friend to get it to do what you want costs almost as much as the next model up, it may be time to change. NB

Next: Artificial Intelligence—the promise of smarter and easier-to-use computers.

To order reprints of this article, see page 65.

Many good ideas had their start in 1912.



From the collections of Henry Ford Museum and Greenfield Village.

Amerisure was one of them.

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International Spotlight

Two European countries that have long been on the economic periphery are catching up fast through U.S. partnerships.

By Henry Eason

Hungary: Hybrid Of The East

Western business people are flocking to Budapest, Hungary's capital and the burgeoning new center of free enterprise activities in Eastern Europe. Private Hungarian firms are cropping up, offering trade and joint venture opportunities that many U.S. companies have found lucrative.

PHOTO: JESSE BLACKBURN—FOLIO INC.

Allan Merken had a troublesome opportunity: A foreign firm with a very cost-efficient manufacturing process wanted an American partner to coproduce light bulbs in the United States. If all went well, Merken believed, he and his would-be partners could successfully invade the market. The problem? The foreigners were Hungarians.

"I had the same views as many other Americans," Merken recalls. "Hungary is behind the Iron Curtain. It is a communist bloc country. I had first thoughts, second thoughts. Then it occurred to me that it would be exciting to do something to improve our relations. There is probably no better vehicle than business."

Ten years and hundreds of millions of light bulbs later, Merken is mighty pleased with his decision.

Today, Action Tungsram, a 200-employee joint firm composed of Tungsram Budapest (49 percent ownership), Action Industries (41 percent) and Merken (10 percent) makes more than 50 million light bulbs annually in East Brunswick, N.J. Action Tungsram is elbowing its way into a market dominated by major manufacturers. Its customers include such major retailers as Sears and K Mart.

In the 10 years since Action Tungsram's inception, the private sector has made significant gains in Hungary, which is Eastern Europe's most market-oriented nation. Last year, the state opened retail establishments covering 770,000 square meters. The private sector built another 300,000. The Hungarian Chamber of Commerce, a laboratory of free enterprise, has become one of the most influential institutions in the country.

Janos Kadar, general secretary of the ruling Hungarian Socialist Workers' Party, has for three decades guided his country steadily toward pragmatic economics, to the point where Western business people come and go routinely, trading freely with newly invigorated state entities as well as private Hungarian firms.

So far, West Germans, Austrians and other Europeans are jumping in as investors, exporters and importers more vigorously than Americans. American diplomats in Budapest think their countrymen can do more to take advantage of the business opportunities.

Says a recent report from the U.S. Embassy in Budapest: "Hungary's emphasis on foreign trade and reform presents U.S. businessmen and women a number of potentially interesting trade and investment opportunities. United States agricultural and high tech products continue to maintain good potential for direct sales to Hungary." The report added that available World Bank financing also offers direct sales opportunities in energy, transportation and chemicals.

The report adds: "Recent liberalization of joint venture laws provides similar opportunities in direct investment, as two new U.S.-Hungarian joint ventures prepare to join the three already operating in Hungary."

Hungary is a comparatively small country, about the size of Indiana, with a population of more than 10 million. But its strategic economic significance is far greater. It has close business, as well as political, ties with the Soviet bloc at a time when tender green shoots of capitalism are appearing throughout the region.

A Hungarian official who witnessed Soviet leader Mikhail Gorbachev's recent tour of Hungarian factories recalls that Gorbachev demonstrated considerable knowledge of market economics and closely questioned Hungarians about their joint ventures with Western companies.

If Eastern Europe follows the example of China in offering trading opportunities, American firms could suddenly find a new market opening that is far richer than the Asian giant, where annual per capita income is $330. That figure for Hungary is $7,200—comparable to Great Britain's $7,640. The per capita income in the German Democratic Republic (East Germany) leads the region at $9,800.

Many of America's leading companies—like McDonnell-Douglas, Firestone, Upjohn, Searle and Purina—already have strong business relationships with Hungarians. That does not mean, says New York-based Hungarian Commercial Counselor Josef Heiszig, that smaller American firms are not welcome. Hungarians, he says, are interested in developing relationships with idea- and technology-rich firms of any size. The Hungarian Chamber of Commerce, Heiszig advises, is ready to assist anyone interested in trade and investment.

Mack Raczkiewicz, president of Ep-

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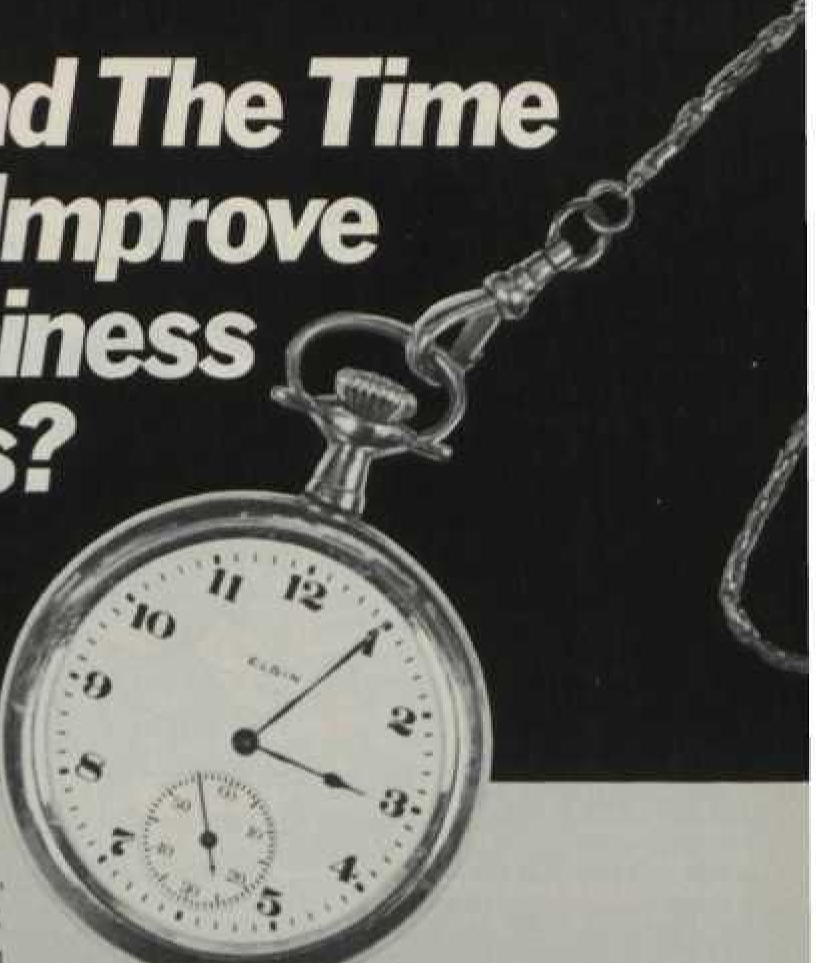

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International Spotlight

stein Engineering Exports in Chicago, has built a number of huge food processing facilities in Eastern Europe and recently won a contract to erect in Hungary a large meat-packing plant from which ham, bacon and other meats will be exported. "The atmosphere for doing business with American companies is now excellent," says Raczkiewicz.

Smaller American firms, he says, should also do well if they seek representation instead of trying to make sales on their own in the beginning.

As free as Hungary's economy is becoming, Budapest is still not Indianapolis. The economy is primarily state-directed with a lot of rules. It takes time to learn the hybrid business culture that is part market-driven and part socialist. Many Hungarian trading companies and some Western firms can help pave the way for new sales. The Hungarian Chamber of Commerce, the U.S. Chamber of Commerce, the U.S. Department of Commerce, the Hungarian Embassy in Washington and the U.S. Embassy in Budapest can all steer business people in the right direction.

Spain: Europe's Sun Belt

The rain from Spain has been falling mainly on American exporters. Midwestern farmers have been harmed by Spanish adherence to European Economic Community rules discriminating against American grain exports. Estimates are that U.S. farmers will lose more than $400 million this year in food sales to Spain, the newest member of the EC.

Some American merchandise exporters are none too happy either about competing in Spain against goods that now come in duty-free from West Germany, France and the other members of the Common Market. Trends show American exporting strength is eroding in markets where European goods are suddenly more price competitive. EC members do not levy tariffs on goods imported from each other, but American goods remain subject to tariffs.

Common Market officials argue that, overall, American exporters will benefit from Spain's entry into the European Community, which now has 12 members. They point out that the EC requires much lower tariffs on numerous manufactured goods than American exporters faced in the old Spain of protected markets.

Despite the controversy over exports, there is a silver lining in the rain cloud over U.S.-Spanish relations—investments.

One of the things that Spanish entry into the Common Market requires is much more liberalized rules governing all foreign firms locating on Spanish soil. The rules were designed mainly to ease investment restrictions against fellow Common Market members. But Americans can also take advantage of the warmer welcome.

And Spanish business people are finding that they will have to modernize their factories quickly if they want to compete in their own home markets against lower-priced Dutch and British goods. They may need American help to achieve that modernization and keep their new EC brethren from capturing domestic markets, and to give them export muscle.

Quite a few American firms are already wise to this. Along with Common Market companies, they are racing to erect factories in what is coming to be called "the sun belt of Europe."

Charles Ludolph, the U.S. Commerce Department's chief Common Market watcher, says that, contrary to its image as a socialist country with an obsessive concern for workers' rights, Spain "wants to maintain good business-labor relations." Spanish wages, he observes, are low when measured against other European pay scales. And a 22 percent unemployment rate translates into a willing labor pool.

A recent U.S. International Trade Administration analysis of Spain's new investment regulations observes that, "through a combination of investment subsidies, tax relief, preferential loans and incentives to hire unemployed or new workers, investors can obtain as much as $4 worth of funding for each dollar of their own equity invested."

You get that for setting up a toy factory, for instance. If you establish a plant in a high tech field, the Spanish government will give you even more generous financial inducements. The ITA report concludes that, if it's a high tech mousetrap you're interested in manufacturing in Spain, "it is reasonable to say that the only things a new investor has to provide are his time, energy and entrepreneurial ability."

Lorenzo Gonzalez-Alonso, Spain's minister for economic and commercial affairs in the United States, says there is a natural partnership in the making between Americans and Spaniards. The Spanish require more sophisticated telecommunications, electronics, chemical and computer investments. And, he points out, American manufacturers could take advantage of a European base from which they could penetrate not only European markets but also those in Mediterranean Basin areas like North Africa and the Middle East.

Meantime, not all American export prospects are damp. The lower dollar relative to European currencies makes many U.S. wares attractive in Spain, despite Common Market adversaries' new tariff-less advantages in that country.

The Boom In Business TV

Viewers now have a choice of 18 national business programs on commercial networks and cable systems. More are in the planning stage.

"Nation's Business Today," a two-hour morning newscast, is anchored by Carl Grant and Meryl Comer (below). Comer also moderates the weekly "It's Your Business" debate show (bottom) with U.S. Chamber President Richard L. Lesher, a regular participant, at left, and U.S. Budget Director James C. Miller, Rep. Martin Frost (D-Tex.) and Barry Bosworth, senior fellow of the Brookings Institution.

PHOTO: T. MICHAEL KEZA

PHOTO: FRANCES BORCHARDT

George Frazza, general counsel, Johnson & Johnson, the health-care company: "There most definitely is a [liability] crisis, and the only beneficiaries are the lawyers and those few people who receive spectacular awards."

Eugene Pavalon, president-elect, Association of Trial Lawyers of America: "The insurance crisis was created by the insurance industry to justify the charging of exorbitant rates."

That sharp exchange took place recently on "It's Your Business," the nationally syndicated public-affairs program on which top government, business, professional and academic experts air their often-conflicting views. Other issues debated lately have been the proper level of health benefits, air-traffic congestion, sexual harassment in the workplace, international trade and proposals to increase the minimum wage.

The program, one of several produced by the U.S. Chamber of Commerce, appears on 160 commercial stations. Its status as a major public-affairs show spotlights an important trend in television today—the proliferation and popularity of programs providing information on business.

Viewers now have a choice of 18 national business programs of a half-hour or more on commercial networks and cable systems. And that selection is in addition to the business news aired as part of regular news broadcasts.

Still more business programs are in the planning stage.

Why this surge? Carl Grant, group vice president for communications of the U.S. Chamber of Commerce, explains: "We launched the American Business Network here at the Chamber in 1981 to fill a void in commercial TV business news."

That initiative has been successful and is being widely imitated, he says,

The Boom In Business TV

"Nightly Business Report," produced by Miami's WPBT-TV, is carried by 265 public television stations. The half-hour show emphasizes stock market reporting. Linda O'Bryon is executive editor and co-anchor.

PHOTO: JOHN CURRAN

because "people have come to realize to a greater extent than ever before that they and their families are directly affected by business and economic developments, that what happens to the economy today can help determine what they pay for their goods and services next month or even determine whether they have jobs next year."

Grant is also co-anchor of "Nation's Business Today," the only live, two-hour business program now on television. It is aired via satellite over ESPN, the nation's largest cable network, at 6:30 a.m. (EST and PST) weekdays, with 60-second updates in the early evening. ESPN, which reaches 38.5 million households, represents 44 percent of the nation's television homes. The program's name reflects the connection between the business news program and *Nation's Business*, the monthly business magazine published by the U.S. Chamber since 1912. Editors of *Nation's Business* periodically appear on the show.

The economics of business programing are not confined to content. Stations carrying situation comedies or business news are competing for advertising dollars, but the business programers think they have a growing edge. Surveys show that audiences for their shows "are an attractive demographic group—more mature, more affluent and better educated," says Grant. "Advertisers who want to reach business people are realizing that business programs offer a very efficient way to do it."

Robert Duboff of Lexington, Mass., a marketing consultant, says the focus of business programs makes them a selling tool: "An advertiser doesn't have to waste money on a big, broad population of viewers. The business program may have a smaller audience than 'The Cosby Show' or 'Wheel of Fortune,' but it is an attentive audience for the product."

A growing number of advertisers hold similar views. Bob Watson, media director for AT&T, says of business programing on television: "It's an interesting genre. For advertisers like us who are looking for an upscale audience, the growing number of programs that attract that kind of viewer can only be good."

Noting that some business programs charge a premium rate, Watson says, "When you look at the kind of audience they have, the extra cost is not unreasonable."

Electronic Media, a major publication for the television industry, takes this view: "Many advertisers—including banks, insurance companies, financial management companies and manufacturers of big-ticket items ranging from luxury cars to computers—are willing to pay a premium for the upscale viewers that business programs attract. Such programs also lend themselves to business-to-business advertising."

But audiences are a prerequisite to advertising revenues, and media executives see viewers drawn in increasing numbers to business programing. Those executives generally agree with the U.S. Chamber's Grant that the expansion of business-news coverage has its roots in the events that have exploded on the public consciousness since the early 1970s. Energy shortages, runaway inflation and interest rates, high unemployment, government regulation and deregulation, recession and recovery, trade deficits, corporate mergers and acquisitions, and the boom—along with the scandals—in Wall Street have been among the developments that led the public to seek more and more business information.

"Fifteen years ago, newspapers discovered business," says Stewart Pinkerton, deputy managing editor of *The Wall Street Journal*, which produces a syndicated, weekly business television program. "Now TV is doing the same thing." In addition to "Wall Street Journal Report" on television, the newspaper produces news shorts for the USA cable network and for radio.

William R. Clabby, a vice president of Dow Jones & Company, the *Journal's* parent, adds, "There is no question that, in the last few years, the major story has been the economy ... 20 years ago, the major story was politics or war or social phenomena."

In a poll by his company, he recalls, individuals, asked to name the top 20 news stories, listed 10 that "were really business stories. People are interested in things that affect them—taxes, personal finance, the economy, pocketbook issues."

Eugene Secunda, a professor at the New York University graduate school of business, adds another dimension: "There is a need out there that is still not filled. You can look at this growth in [business news] interest from a socio-cultural perspective and see there are more respect for business, more young people who consider a business career a desirable way of life.

"This is part of a broader pattern. The country has a general preoccupation with business and economics."

Management consultant Duboff, who is general manager of Decision Research Corporation,' sums up the change this way: "In the 1960s, Jane Fonda was an activist for antiestablishment causes; in the '80s, she's an entre-

preneur, selling her exercise books and videos."

The recent expansion of business programing in response to changing viewer demands ranges from local initiatives to major new efforts by the networks.

For example, Mary Carole McDonnell, program director at KMGH-TV in Denver, cut back morning traffic, weather and local news to make room for a syndicated, half-hour business report, and KGO-TV in San Francisco shuffled its Sunday morning schedule to add a second business-information program.

Although the networks are stepping up business programing, they are actually the newest arrivals in the field. ABC launched "Business World," a half-hour, Sunday program anchored by veteran newsman Sander Vanocur. ABC also converted a 15-minute segment of its daily "World News This Morning" into a business report featuring business editor Steve Aug.

NBC now offers a Saturday half-hour report, "Strictly Business," and began collaborating with *The Wall Street Journal* on a morning business show.

At CBS, officials report that major new business programing is on hold because of the corporation's restructuring and its continuing changes to its morning news show.

For the most part, non-network television has been far more aggressive than the networks in presenting business programs. Last year, Buena Vista Television, a subsidiary of the Walt Disney Company, began distributing a daily program, "Today's Business." About 40 percent of the 130 stations that carry the taped, half-hour show were network affiliates.

Cable News Network (CNN), a 24-hour-a-day news operation, started with a single business program, "Money Line," in 1980 and now has seven such offerings—two each weekday morning, one each evening and four on weekends. CNN, which reports it can reach 35 million homes, says it is considering two more business programs.

The Financial News Network, a cable service, offers stock prices throughout the day, along with interviews and reports for investors.

The longest-running financial program is Louis Rukeyser's "Wall Street Week," a Friday evening fixture on public television for 14 years. Produced

Louis Rukeyser's "Wall Street Week," aired Friday nights on 293 public television stations, has been running for 14 years.

PHOTO: DENNIS BRACK—BLACK STAR

by Maryland Public Television and carried by 293 stations, the show draws an estimated 10 million viewers to its mixture of financial news, commentary, market forecasting and investment advice. Two other well-known business programs on public television are "Nightly Business Report," carried by 265 stations, and "Adam Smith's Money World," which is on 196 stations. (Public television shows can reach more stations than commercial shows because several stations in one market often carry the same program, whereas network and syndicated programs generally are offered to a single station in a given market.)

Also spurring the growth of business programing have been independent television stations, the arrival of cable systems and the mass-marketing of videocassette recorders. Programing became directed at specific sectors of the viewing public, while the networks remained committed to broad-based offerings.

J. William Grimes, president and chief executive officer of cable system ESPN, which provides extensive sports coverage, says there is a natural tie-in between his system and "Nation's Business Today": "Our sports viewer is the same kind of person who is interested in receiving business news in the morning before going to work. The program attracts a very high concentration of successful professional and managerial viewers."

The U.S. Chamber of Commerce was the first organization to start broadcasting specialized information for business audiences. It began in 1949 on radio and moved into television in the early 1970s. "It's Your Business" was launched in 1979. The American Business Network went on the air in 1982, with programing that included "BizNet News," which became "Nation's Business Today" when it began on ESPN in 1985.

The Chamber also produces "Ask Washington," a daily show on which experts on business subjects respond to viewers' questions. That program is carried by the Learning Channel cable network and 30 independent stations.

Richard L. Lesher, president of the Chamber, says of his organization's extensive business programing for television: "We were the pioneer. We clearly identified the need. We're flattered that a lot of others copy us." He adds: "Business and economic issues have been the key issues in this country for 200 years. Americans are more interested in where their economy is going than in what's happening in Teheran. . . . The networks are just catching up to that fact."

Lesher, who began moving the Chamber into big-time television operations shortly after he took over the leadership of the nation's largest business federation in 1975, also represents the business viewpoint on "It's Your Business."

The program usually features teams on both sides of the issue under debate. In the program on the liability-insurance crisis, for example, Lesher sided with George Frazza of Johnson & Johnson in arguing that the solution lies in reforming the civil-justice system, not in punitive action against the insurance companies.

How does business programing do on the bottom line?

The Chamber says revenues for its daily business-news program are up 35 percent over last year.

How are the other business-news offerings faring? Results are mixed.

Robert Jacquemin, senior vice presi-

dent of Buena Vista Television, says "Today's Business" "is still losing some money, but we are in this for the long haul." FNN, which has been on the air five years, reports it has been profitable for nearly two. CNN says that its business division's programs now represent 12 percent of the system's programing and are profitable.

The profitability, or lack of it, among various business programs gives rise to an intramural debate over the most effective scheduling to attract the largest audience.

Consuelo Mack, whose production company turns out "Today's Business" for Buena Vista, contends that early-morning business shows on stations rather than cable networks have the advantage. She reasons that viewing at that time is more likely to be done in the bedroom or the kitchen, while cable systems are likely to be connected to TV sets in living or family rooms.

Linda O'Bryon, co-anchor of public TV's "Nightly Business Report," says business programs aired in early evening have an advantage because they can provide closing stock reports.

Meryl Comer, who shares co-anchor duties with Carl Grant on "Nation's Business Today," points to the length as well as the scheduling of her morning show: "Being live, we can report all the overnight news. With two hours, we are able to do stories in more depth, business features as well as headlines. I'd like to feel that business people who turn to us are getting enough news—international, domestic and financial—so that they won't have to go anywhere else."

Comer, like ESPN's Grimes, sees synergism at work in the cable system and its "Nation's Business Today" news program: "Most hotel rooms are wired for cable. The TV set on which a traveler watched a sports event on ESPN the previous night is already tuned to the cable network when 'Nation's Business Today' comes on in the morning."

Because of the large diversity in content and outlets, business programing has yet to develop the head-to-head competition that has been traditional in the network rating wars. Says *Electronic Media*: "Although the business news boom has produced a fairly crowded field of players, business news producers contacted by [this publication] generally welcomed the competition. They said the boom should expand the public appetite for business news. But they also expect a shakeout of sorts down the road."

Regardless of whether that shakeout occurs, television viewers are expected to continue to demand detailed coverage of business and economic issues. John Moczulski, program director at San Francisco's KGO-TV, tells why:

"People want business information. They say, 'If I know a little more, I can plan my future better.' All of a sudden, financial planning information isn't just for the top 3 percent on the income scale. It's for the middle manager and the blue-collar worker, too. Now people feel they can really make a difference in how they live." NB

MANAGING YOUR BUSINESS

Time To Review Benefits

A look at sweeping changes in the tax treatment of employee benefits.

By Joan C. Szabo

Tax reform makes major changes in qualified employee benefit plans. Some of the key ones include expanded coverage and faster vesting for pension plans and lower limits on amounts that can be deferred under 401(k) plans.

PHOTO: JIM PEINGERSH—UNIPHOTO

From the employer's perspective, some of the most far-reaching changes made by the 1986 tax reform act affect employee benefits.

Says Buck Consultants, a consulting firm on employee benefits: "The benefit changes in the bill are massive, and employers will need to redesign plans, communicate changes to employees and significantly revise their administrative systems."

And the experts generally agree that employers will incur substantial additional costs because the bill requires expanded benefits, eliminates some tax benefits and increases costs of administration.

Among other things, the new law expands coverage and provides faster vesting in pension plans, changes the rules under which those plans may be coordinated with Social Security, lowers limits on amounts that can be deferred under 401(k) plans and tightens nondiscrimination rules, which are designed to prevent tilting of benefits programs toward higher-paid employees.

The new law sets new rules for Internal Revenue Service determinations of discrimination.

For example, the act defines a highly compensated employee as one holding a 5 percent ownership role in the current or preceding tax year, in the top 20 percent of all employees ranked by compensation, earning more than $75,000 in the current or preceding plan year or as an officer earning more than $45,000. There are additional standards to consider.

As a result of the changes affecting employee benefits, most employers should re-examine existing packages and pinpoint necessary revisions so plans can be amended, the experts advise. And that re-examination probably will mean higher costs.

Not only will plans cost more if benefits must be improved or extended to more workers, but plan administration also will be more complex and costly, experts say.

"The administrative costs of amending plans could easily run several thousand dollars per plan," estimates Frank McArdle, director of education for the Employee Benefit Research Institute, a nonprofit organization in Washington.

Small companies will be hit hardest, since they can least afford the higher costs associated with compliance.

"The unfortunate result may be that employee benefits become so prohibitively costly that smaller companies may terminate benefit plans, not start them or slow the pace at which future benefits increase," says James A. Klein, pension and employee benefits manager for the U.S. Chamber of Commerce.

EBRI's McArdle expresses a similar concern: "Despite its good intentions, the new law may . . . result in less coverage in the smaller-employer sector, where benefit coverage is least available today."

Such developments would contradict the expressed goals of Congress: generally broader and more equitable benefit coverage for employees.

For employers who plan to continue benefits programs, the implementation of the law will require an appreciation of its far-reaching aspects.

To help companies understand the changes, *Nation's Business* invited two experts on employee benefits to address the most significant provisions.

What follows, in question and answer format, are the comments of EBRI's Frank McArdle and Milton Pickman, tax partner with the New York accounting firm of Anchin, Lock & Anchin and chairman of the employee benefits subcommittee of the American Institute of Certified Public Accountants.

Which employee benefits are affected by tax reform?

McArdle: Tax reform affects a number of employee benefits including 401(k) plans, IRAs, company-sponsored retirement plans and health and group term life insurance plans.

Which benefits are most affected?

McArdle: Retirement savings plans are affected most. Then, benefit plans such as group health and term life insurance.

Doesn't tax reform make some changes in education assistance and group legal services?

McArdle: Yes, they lose their tax exclusion in 1988.

What changes are made in health and group term life insurance?

McArdle: Health and group term life insurance plans must satisfy more stringent nondiscrimination tests that include the value of coverage. If a plan is found to be discriminatory, highly compensated employees are taxed on the value of that portion of the benefits beyond those available to the nonhighly compensated.

Which retirement plans are most affected by tax reform?

McArdle: Capital accumulation plans;

these include 401(k) plans and IRAs.

What did tax reform do to 401(k) plans?

Pickman: For one thing, the maximum salary reduction contribution made by the employee is limited to $7,000 a year, indexed to the cost of living. Formerly, the maximum could have been as high as $30,000 a year. Starting in 1989, employees with at least one year of service are eligible to join a 401(k) plan. Under the old law, it was three years.

In addition, there are new nondiscrimination rules which may restrict how much the higher paid employee can contribute in relationship to those at lower salary levels.

What happened to the IRA deduction?

Pickman: The $2,000 IRA contribution that employed persons have been able to exclude from taxable income is eliminated for taxpayers who (1) are active participants in a qualified retirement plan at work and (2) have an adjusted gross income of $50,000 or more on a joint return or $35,000 on a single return.

Who can still claim a full IRA deduction?

Pickman: Those taxpayers who do not participate in an employer-provided plan or who participate in a plan but have an adjusted gross income of less than $40,000 (joint) or $25,000 (single) may continue to make fully deductible IRA contributions.

What about individuals who make an IRA contribution and have joint incomes in the $40,000 to $50,000 range or single incomes in the $25,000 to $35,000 range?

Pickman: The IRA deduction is reduced proportionately for pension plan participants who have joint incomes in the $40,000 to $50,000 range and single filers in the $25,000 to $35,000 range.

What other changes does tax reform make in employer-sponsored retirement plans?

Pickman: It requires faster vesting, broader participation and more equitable coverage for all employees in qualified plans.

What is a qualified plan?

Pickman: A qualified plan is one approved by the Internal Revenue Service as eligible for tax benefits.

What are the new vesting requirements for private-sector single-employer retirement plans?

Pickman: Starting in 1989, a plan must meet one of two alternative minimum vesting schedules. One calls for 100 percent vesting after completion of

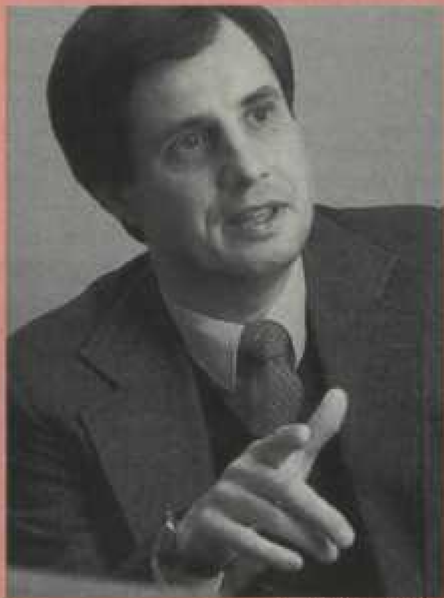

PHOTO: CAMERON DAVIDSON

Frank McArdle: "Despite its good intentions, the new law may result in less coverage by smaller employers."

five years of service, which is referred to as a five-year cliff plan. Under the old law it was 10 years.

The other, referred to as graded vesting, provides 20 percent vesting after three years of service, with the vested benefit rising 20 percent a year until the employee is 100 percent vested after seven years. And accelerated vesting continues for top-heavy plans.

What is a top-heavy plan?

Pickman: It is one in which the accumulated benefits or contributions for the key employees constitute at least 60 percent of the total accumulation.

Who are key employees?

Pickman: Key employees are generally stockholders and officers of a corporation.

How many more workers will be vested under the new requirements?

McArdle: Assuming plans are maintained, EBRI estimates the new vesting requirements will add some two million vested workers in the first year.

What will the new vesting rules cost employers?

McArdle: EBRI estimates that the five-year vesting provision from a benefits standpoint would have cost between $1.4 and $4.7 billion nationwide if it had been in effect in 1985. That breaks down to a 2-to-7-percent increase in total private pension plan contributions.

Individual employers could experience much higher costs, especially if they have younger employees or a large turnover.

How does tax reform broaden minimum employee participation in a smaller retirement plan?

McArdle: To qualify under IRS rules, a plan must benefit at least 50 employees or 40 percent or more of all employees, whichever is less. The law says you can't add different plans, even if they are comparable, to come up with the 50.

How does tax reform provide nondiscriminatory coverage of employees in retirement plans?

McArdle: The new law requires that one of the following tests be satisfied: (1) 70 percent of all nonhighly compensated employees are covered by the plan; (2) the percentage of nonhighly compensated employees covered by the plan is at least 70 percent of the percentage of highly compensated employees covered; (3) the prior law's classification test is met and the average benefit level for nonhighly compensated employees, expressed as a percentage of their pay, is at least 70 percent of the level for highly compensated employees.

What other major changes does tax reform make in qualified retirement plans?

McArdle: It increases pension amounts for rank-and-file employees by limiting integration of retirement plans with Social Security benefits after Dec. 31, 1988.

What is Social Security integration?

McArdle: Social Security integration essentially allows a retirement plan to offset pensions to reflect Social Security payments related to the employer's contributions to the government benefits.

What is the aim of the new integration rules?

McArdle: The aim is to see that all employees covered by integrated plans, especially lower-paid ones, receive some minimum benefit from the company retirement plan.

The new law limits the extent to which pensions can be offset by anticipated Social Security payments (no more than 50 percent of the employee's Social Security benefit).

What kinds of employers are likely to

be most affected by the integration changes?

McArdle: These rules are more likely to affect employers with strongly integrated plans. Smaller employers are more likely to be more heavily integrated than larger ones.

Will the integration rules involve additional costs for employers?

McArdle: Yes, but the costs will vary. Many larger employers may already be close to complying with the new rules and won't incur much additional cost. Small companies may incur fairly significant costs.

Did any retirement plan changes go into effect in 1986?

Pickman: Yes, one deals with profit-sharing plans. A company with a profit-sharing plan no longer must show a profit to justify a contribution.

What kinds of firms will be helped by this rule change on profit-sharing plans?

Pickman: This change may be very helpful for start-up companies that don't show profits for the first few years. Furthermore, the employees will be able to make a salary reduction to a 401(k) plan, which is technically a profit-sharing plan.

What other changes does the law make in profit-sharing plans?

Pickman: The deductible limit for contributions continues to be 15 percent of total compensation. However, in the past, if a contribution was less than 15 percent in one year, there would be a carryforward of this amount. So that in a subsequent year, a contribution as high as 25 percent of compensation could be deductible.

This carryforward will no longer be permitted for years after 1986.

Did any other major retirement plan changes take effect in 1986?

PHOTO: TOM SOBOLIK—BLACK STAR

Milton Pickman: "Tax reform allows smaller employers to have a salary reduction simplified employee pension plan."

McArdle: Yes. Another has to do with an employer who terminates a defined-benefit plan to recover surplus funds if the plan is overfunded. That employer will now pay a 10 percent excise tax on recaptured funds.

How does tax reform change the rules governing simplified employee pensions (SEPs)?

Pickman: Tax reform allows smaller employers, those with no more than 25 employees, to have a salary reduction SEP. The old law did not permit salary deferrals under a SEP.

How much can an employee contribute to a SEP?

Pickman: Employees will be able to make up to $7,000 in salary reduction contributions as long as 50 percent of the employees actually participate. This is effective in 1987.

What about employee stock ownership plans?

McArdle: ESOPs were changed in many ways by tax reform.

What are ESOPs?

McArdle: ESOPs are a special kind of employee benefit plan which gives workers partial or complete ownership of the companies for which they work. Companies buy stock for employees with tax-deductible contributions made from corporate earnings.

Can you explain how tax reform changes ESOPs?

McArdle: There are a number of changes. For one, employers can avoid that 10 percent excise tax on excess assets if they take the money from a terminated defined-benefit pension plan and contribute it to an ESOP through Dec. 31, 1988. The law also expands the deduction an employer may take for dividends paid on ESOP stock.

Are ESOPs more attractive now?

McArdle: Of all the employee benefit areas of the tax code, ESOPs are one of the few to get more favorable tax treatment than under the old law. ESOPs are being seen as a more attractive technique of corporate finance. Overall there probably will be an increased use of ESOPs as a result of tax reform. NB

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Timetable For Tax Reform's Major Employee Benefit Changes

Some of the most significant changes made by the 1986 Tax Reform Act in the rules governing tax treatment of employee benefits are listed below, with their effective dates.

1986

Profit-sharing plans: Both employee elective deferrals and employer contributions can be made in a year in which the employer does not have current or accumulated profits.

Excess pension assets: An employer who receives surplus funds when terminating an overfunded pension plan must pay a 10 percent tax.

1987

Reduced limits on contributions and benefits: The maximum benefit under a defined benefit pension plan is reduced for individuals who retire before the Social Security retirement age.

401(k) plans: The yearly maximum an employee can defer is cut from $30,000 to $7,000.

Simplified Employee Pension: Employees of smaller firms (25 or fewer employees) can make elective deferrals up to $7,000 a year to a SEP.

1989

Vesting, participation and coverage: New requirements are established for qualified retirement plans.

MANAGING YOUR BUSINESS

Trouble On The Firing Line

By Stephen A. Ploscowe and Marvin M. Goldstein

Sixty million Americans—nearly 70 percent of the labor force—work without union collective bargaining agreements or written contracts specifying grounds on which a worker can be dismissed. Until recently, such workers were "employed at will" and could be fired for almost any reason—or for no reason.

There were two fairly obvious exceptions. A discharge could not violate laws against racial or religious discrimination; neither could it contravene public policy. (For example, current public policy would not permit the firing of an employee who refused to follow a superior's order to break the law.)

Since the 1970s, however, the courts have been chipping away at the employment-at-will doctrine, and this trend has accelerated, as shown in this sampling of recent cases:

- The Supreme Court of New Jersey followed the lead of 20 other states by ruling that representations in employee handbooks constitute contracts binding on the employer. Such representations are generally read to mean that good job performance ensures continued employment.
- A 15-year employee of a major car rental company accepted relocation to a division with declining business after being told that he would "never get hurt with this company." When he was later fired, he brought suit, and a jury awarded him $304,693. A New York court, upholding this judgment, held that the circumstances warranted the jury's finding that there was a promise of lifetime employment to a "star" employee who the company hoped would revive a dying division.
- A Montana woman was released from her job after 28 years of service. A jury awarded her $94,170 in economic damages, $100,000 for emotional distress and $1,300,000 in punitive damages. The Montana Supreme Court upheld the jury's judgment, declaring "a long-term employee has an expectation of continued employment provided that the employee's work performance is satisfactory."

Stephen A. Ploscowe and Marvin M. Goldstein are partners in a Roseland, N.J., law firm that represents management in employment matters.

Whether an employee sues can depend on that worker's feelings about his or her treatment on being fired. An employee who feels abused or unfairly treated is more likely to bring a wrongful dismissal suit against his or her former company.

ILLUSTRATIONS: JIM STARR—EUCALYPTUS TREE STUDIO

- A Virginia court held that an employer that had established a system for warning workers prior to any dismissal action could not go outside that system to dismiss them.

What problems do these rulings create for the small to mid-sized company?

For one thing, the courts are asking judges and juries to decide what is "good cause" and what is "fair"—elusive concepts that can vary widely. As the legal question of job security becomes more and more complex, there is often a wide gap between the way an employer defines good performance and the way a worker defines it.

Similarly, when discharged workers maintain that they had implied contracts, the courts are likely to use written and oral evidence, past company practice and the employees' work histories to define the terms of such agreements. The parties need not have mutually agreed to those terms—and in some jurisdictions the employees need not have known of their existence—for the courts to find binding restrictions on discharging at will.

Employers are at the mercy of employees with convenient memories. An employee can recite what was allegedly said by all of his or her supervisors, commencing with the first day of employment, and this type of testimony is difficult to rebut. (Frequently, because of time elapsed and job turnover, an employer cannot locate the supervisory personnel involved to help with the defense.)

For employers, then, the challenge is to implement policies that will insulate them from costly lawsuits. These are some guidelines that employers might consider as they develop such policies:

Avoid implied promises. An employer's vulnerability to a wrongful-discharge suit can begin in the very early stages of an employment relationship. Exaggerated statements by recruiters or other management personnel about job security or advancement opportunities may form the basis of a contractual relationship.

Similarly, a purely oral promise of a performance appraisal or salary review after a specified length of time should be avoided; otherwise, such a promise

Recent court decisions make firing at will more difficult; small and mid-sized businesses should revise handbooks and procedures.

may be viewed as a contract of employment for that length of time.

Revise employee manuals. Materials designed to familiarize the worker with company policies have proven to be fruitful sources of evidence in litigation by dismissed workers. A company that wishes to retain its discretion to discharge a worker at any time should delete all references to dismissal only for "just cause," along with vague terms—like "fair" and "equitable"—that may stimulate litigation.

There is, however, no legal bar to giving employees a list of reasons for which they may be discharged. Indeed, such a list can reduce employee fears about arbitrary actions by the company. Your employee handbook should also state, however, that the list is intended as a guideline only and the employer reserves the right to discharge an employee for other reasons.

Your handbook should state, in bold letters, that it is not a contract and that you reserve the right to modify or amend any personnel policy at any time, even without notice. It should also state that only designated company officials can enter into an oral or written contract with an employee. This statement will help prevent a later judicial finding that the terms of the handbook have been modified by the statements of supervisory personnel. In addition, the handbook should state that, if there is any inconsistency between a statement in the handbook and actual practice, the handbook will govern.

The handbook should not state that promotions can be expected at specific points during the employment relationship. Such statements may be read as implying that a contract was created when an employee was hired, lasting at least until the time scheduled for the first promotion. If the handbook specifies a probationary period for new employees, it should also state that such employees can be fired before probation is up and that successfully completing probation does not guarantee continued employment.

Recent court decisions leave one large area unsettled. Although an employer can change wages and related benefits at any time, it is not clear whether it can change policies and procedures related to job security. Even if

Employee manuals designed to explain company policies have proven to be fruitful sources of evidence in litigation by dismissed workers.

an employer modifies a company handbook to include a disclaimer stating that the manual and policies are not employment contracts and that all employees may be fired at will at any time, it is still unclear whether an employee hired under an old policy can be fired without cause under the new policy.

Revise job descriptions. A detailed job description should state that the employer is free to deviate from that description at any time, with or without notice. Otherwise, fired workers may be able to argue that they were "constructively discharged" for refusing to perform work for which they were not hired.

Have a procedure for termination. Employers should realize that whether an employee sues can depend on whether that worker feels abused or unfairly treated. Every company should have an internal procedure for job termination. Lower level management personnel should not have the authority to discharge employees without having first obtained consent from the personnel department or higher management. Through such a procedure, an employer can avoid angry and emotional situations that could result in accusations of abusive discharge.

Document unsatisfactory performance. The employee should be asked to sign this record. A refusal to sign should be noted on the report of the incident. This documentation could play a pivotal role in supporting an employer's stand that a discharge was reasonable.

The termination of long-term employees should be handled with particular care. Such employment naturally gives rise to a feeling of security and an expectation of continued employment.

Review post-discharge procedures. If discharge is not based on the employee's performance, offering outplacement services may serve to direct the employee's attention toward prospects of new employment. In addition, making such services available at the company's expense could mitigate claims of bad faith.

There are other ways to minimize risk after a discharge decision has been reached. There should be an exit interview in which each departing employee—terminated or resigned—is encouraged to air grievances. Such a procedure can help to uncover problems that might lead to legal action by a fired employee.

The employer may also want to obtain a commitment from the worker not to sue. The discharged employee must not be coerced into signing any such agreement, however, and he or she must get something in return—additional severance pay, for example.

Finally, an employer should act with caution if a fired employee requests a recommendation or reference. If the employee was discharged for cause, a positive reference could be used as evidence in a wrongful-discharge suit.

A final warning: A company that wants to defend itself against wrongful-discharge suits can create new problems if it does not proceed carefully. If it leads employees to believe that it regards them as untrustworthy adversaries, it can damage morale and labor-management relations, and even stimulate union organizing activity. ■

To order reprints of this article, see page 65.

Franchising: Business Services

By Bob Gatty

When David Caple moved to Naples, Fla., last year, the first thing he had to do was find a job.

Searching the newspaper, he spotted this ad: "Jobs for top dollar." So he called. It was the Naples franchise of Just Our Business Systems (J.O.B.S.), established two years ago to help blue-collar workers find jobs.

He went to the firm's office, paid a $75 fee and received a list of phone numbers and contacts of companies looking for workers. Within a day he had a job as crew leader at Gater Landscaping, a firm with about 15 employees.

Gater's boss, Andrew Campbell, says the J.O.B.S. service saves him time and money. "If I put an ad in the paper, I get all the bums," he explains. "Forty million idiots show up, and I have to screen out the one or two good ones."

But the people at J.O.B.S. do the screening, and the service is free. "All I have to do is let them know what I need, and they have someone here in a day or two."

Robert Norins, president of J.O.B.S., began selling franchises in 1985. Today, there are 34 J.O.B.S. franchises in 13 states with commitments for another 21. The franchise fee is $19,500, and Franchising Director Paul Elieff says up to $15,000 more is needed for start-up costs.

Head-hunting for blue-collar workers is just one of dozens of successful franchise ideas that make business services the third fastest growing segment of franchising, according to the International Franchise Association (IFA).

They include financial services, communications systems, printing and copying, mailing services, employment and temporary placement agencies, legal services, computer consultants—even companies that shred office papers and documents.

IFA says this segment of franchising grew an average 37 percent annually from 1975 to 1980, then leveled off at an average 12 percent annually over the next five years. Total revenues from sales exceeded $12 billion in 1985 and are projected to top $21 billion by 1990.

There are two reasons for this growth, IFA explains. The expansion of office automation has created greater demand for temporary workers with specialized skills. And an increasingly complex tax system has boosted franchises offering accounting, financial planning, tax preparation and legal services to small businesses.

Just as important is the growing desire of many Americans to become entrepreneurs. Business service franchises often offer the chance to do that without much money. For example, it costs $17,500 to purchase a franchise from Mail Boxes Etc. USA, originally established to rent mailboxes mostly to small businesses. The firm, which began franchising in 1980, now has 470 franchises and offers secretarial services as well as telephone answering, copying, printing, post office boxes and business supplies.

Mail Boxes has found its niche in serving "primarily the small business person, often operating out of his or her home," says Tony DeSio, president and cofounder of the San Diego firm. "This is the person who does not have the resources to establish a full-service office. It's a substantial market."

Small business consulting is the foundation for many other franchise firms, including General Business Services, Rockville, Md., launched in 1962 by former small businessman Bernard Browning. Today there are 750 GBS franchises nationwide, in Puerto Rico and in the Virgin Islands. Company officials say they are adding about 10 percent more franchises each year.

GBS provides tax consulting and gen-

Andrew Campbell (center), owner of Gater Landscaping in Naples, Fla., supervises Joe Gentile (left) and Dave Caple, the two employees Campbell hired from the J.O.B.S. employment agency. The franchise specializes in placing workers in blue collar jobs.

PHOTO: THOMAS A. PRICE

New Franchise Guide Available

The latest version of the Commerce Department's *Franchise Opportunities Handbook* is available for $15, including postage and handling.

The handbook can be ordered from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402.

When ordering, refer to stock number S/N 003-008-00201-3.

Where do small firms go when they can't afford full-time accountants, personnel departments or other services? Increasingly, to a franchise.

eral accounting support services. Financial planning is a service increasingly in demand, says Ronald Snow, vice president for field operations.

"We are working with new tax laws almost every year," Snow says. "The government says it is simplifying the tax system, but on the business side, things are getting more complex."

GBS franchises cost about $22,000. "We're starting to get a younger group," says Snow. "More young people are saying they want to be their own bosses, but they don't want to do it alone."

Marcoin Business Services, Atlanta, with 137 franchise operations nationwide and 16 company-owned locations, provides business services for smaller businesses. Says Joan Shuminski, a Marcoin franchisee in Omaha: "We do financial reports for small businesses, tax preparation for businesses and individuals, develop business plans and particularly help a small business decide on an accounting system. We try to guide them into a better operation."

But Marcoin got its start in 1979 by providing accounting services to the retail petroleum industry, and still works in that industry. Recently, the firm organized a financial management seminar for one of the large oil companies. "Our phone is ringing off the hook with others asking for the same kind of thing," says Thomas Rhodes, vice president of franchise operations.

It costs $30,000-$40,000 for a Marcoin franchise, says Chief Executive Officer Robert Talmage—$20,000 for the franchise fee, and the rest for equipment, furniture and operating capital.

Management Reports & Services, Seattle, is a franchise company established to provide small businesses with strategic planning information. MR&S takes its clients' records of key indicators—such as profits and losses, inventory and new sales—and produces graphs giving those clients analyses of their performances each month.

"It's like a gas gauge for the driver of a small business," says Milo D. Smith, head of the firm's franchising division. "You can drive without the gas gauge, but it's easier if you can see how much fuel is left."

Advantage Business Services in Auburn, Me., provides payroll services to small businesses—the average number of checks it sends out per client is 20. Advantage writes the checks on its own account, then debits its fee from the deposit put down by the client. It also handles federal and state tax deposits and reporting, and supplies reports on such items as sick and vacation time accruals and balances, salary review reminders, federal job cost affidavits, union dues and employee loans.

President David Friedrich says Advantage is inexpensive—a total investment of $15,000 per office—which allows the franchisee to work with small businesses in rural markets that other

Franchising: Business Services

service companies would not consider. "Our franchisees have no inventory, receivables or bad debts," he says. "Our unique structure and distribution system uses personal computers to collect and transmit data to our central computers to combine local personalized service with mass production economies of scale."

Because of the programs developed by the company, Friedrich says, franchisees do not have to know how to use computers or set up payroll.

Cashing in on the need for quick and inexpensive printing services has been Postal Instant Press (PIP), which claims to be the world's largest printing chain with over 1,100 outlets in the United States, Canada, the United Kingdom and Japan. The Los Angeles-based company began franchising in 1968 and opens about 100 stores each year. Its franchise fee is $15,000.

Computer technology is driving the printing industry, and PIP Chief Executive Officer Thomas C. Marotto sees electronic publishing as an important

The Mail Boxes Etc. USA franchise provides office services, including package handling, for small businesses.

PHOTO: C. CARLSON—MAIL BOXES ETC USA

trend. "Laser printing holds tremendous potential for us," he says.

"You have to be sensitive to new things," says Marotto. "The key to success is the ability to plug in a variety of new products and services."

One firm focusing heavily on electronic printing and graphics is AlphaGraphics, Tucson, Ariz. The company was founded in 1969 and has 205 franchises, with five to six opening each month. The firm is using Apple Macintosh computers and software, as well as its own software, to produce many of the most needed business printing and graphic design services within 24 hours.

"We are catering to the consumers' rising expectations of what documents should look like and the speed at which they should be communicated," explains Rodger Ford, the company's president. Despite the cost of $264,000 to set up a franchise, Ford says Alphagraphics is receiving more than 1,000 inquiries each month.

Ronald Sommers, Englewood, N.J., a consultant to franchisors and potential franchisees, says business services franchises are excellent vehicles for many would-be entrepreneurs. That means new opportunities for franchisors as well.

Sommers says: "If the franchise can offer a service that is needed, if the knowledge is easily transferable and if you can offer name recognition, then chances for success are good, and the return on investment can be quite impressive." NB

The Proper Business Look

By Walter Wingo

***Nation's Business* is observing its 75th anniversary in 1987 with an anniversary issue in September and special articles like this one in other issues.**

Modern executives who dress meticulously for success might cause a stir if they walked through a time warp into an office of 75 years ago. To those charter readers of *Nation's Business*, the dependable-looking manager or employee required somewhat different attire.

Although there is a marked difference between the business attire of today and that of 1912, there is also an enduring common denominator—a neat, conservative look.

The typical manager just before World War I dressed formally, almost funereally. His suits were black or dark blue. His loose-fitting jackets fell an inch or two above the knees and were worn open to reveal a many-buttoned vest with a watch chain. His jaw sat on a tall, stiff collar that enclosed a somber necktie. High-buttoned, sharply pointed shoes poked from the bottoms of his cuffless trousers.

Women in offices and shops wore frilly blouses and ankle-length skirts. The serious place of business forbade daring outfits sometimes seen on the streets, such as hobble skirts that ended between the calf and the ankle.

Young men in the office 75 years ago usually sported a lankier look than their bosses—closer-fitting suits, often dark brown and gray as well as navy blue. Their machine-made suits did not last as long as the fully tailored outfits of top management. To compensate, factories supplied two pairs of matching trousers for each jacket.

"Every man wore a shirt with detachable collar and cuffs," says Jack Hyde, head of the menswear design and marketing department at the Fashion Institute of Technology in New York. "There were no washing machines to speak of, so men wore their shirts three days in a row but changed their cuffs and collars daily."

Military styling began to infiltrate corporate fashions during World War I:

A prosperous businessman, circa 1912: His dark suit, with its loose-fitting jacket and many-buttoned vest, contributed to the formal, all-business impression he created.

Britain's Prince of Wales sailed to the states in the 1920s, bringing with him a look soon copied by U.S. businessmen, including the now-famous Windsor knot for ties.

PHOTOS: THE BETTMANN ARCHIVE

high waists, snugger fits and belts. Doughboys returning from Europe were fed up with the drabness of the uniform, but they were hooked on many of its comforts. They demanded natural padding, softer, permanent collars and smarter lines in their civilian clothes.

The Prince of Wales visited the United States in 1923, and American tailors immediately copied everything he wore. Businessmen began showing up for work in jackets tucked in at the waist with large, flowing handkerchiefs sticking out from broad lapels. They took to wearing narrow-legged trousers, panama hats and wing tip shoes with spats. Their shirts had wide, pointed collars to make room for red ties knotted with a big four-in-hand, which would be known later as the Windsor.

The British influence continued through the 1930s. Menswear designers borrowed the drape suit from London. Shoulders broadened, the chest expanded, the waist rose, sides were vented, sleeves were tapered, trousers took on double pleats. Vests returned. Polka-dot ties and plaid handkerchiefs appeared.

Fast-changing styles led the J.C. Penney Company—celebrating its own 85th anniversary this year—to issue these words to employees participating in a

Walter Wingo is a Washington-based free-lance writer.

Office attire has changed in the last 75 years, but the basic concept endures: A neat, tailored, conservative look is still the correct dress for success.

Despite an ever-changing fashion world, business people today share with their early 20th century counterparts a no-nonsense approach to proper office attire.

PHOTO: PETER GARFIELD—FOLIO INC.

1930 training course for salespeople: "No one likes to come into contact with a slovenly, careless, untidy salesperson. ... The customers themselves may not present a faultlessly groomed appearance, but they respond to this element of favorable approach in the salesperson."

America's main contribution to fashion in the late 1930s was in hot-weather wear, especially tropical-weight worsted. But even these suits carried English styling.

Workaday wear of women on both sides of the Atlantic was strongly influenced by the marriage of the abdicated king to Wallis Simpson in 1937. The new Duchess of Windsor introduced a long and lean look, with skirts falling again to the bottom of the calf.

The end of World War II brought a renewed drive for comfortable clothing similar to that after the first World War, note archivists at Hart Schaffner & Marx, a firm that is celebrating its 100th year in men's clothing. Synthetics developed during the war appeared in lighter fabrics.

Brown suits suddenly became popular. The reason, some speculated, was that Army veterans came home wearing G.I. dress shoes, which were brown.

Natty Italian cuts moved into board rooms and offices in the late '50s. That meant natural shoulders, trimmer lines, tapered trousers, narrow silk ties and pointed shoes. The style dominated a decade, with one big change. Three-button jackets were replaced when President John Kennedy showed up at press conferences in two-button suits.

Air travel further changed the businessman's wardrobe. Three-season suits became a necessity in order to go quickly from one clime to another.

By the late '70s, tailored sports coats and dress slacks gained acceptance as business wear. By the '80s, they were worn about equally with suits in some parts of the country.

Ronald Reagan's entry to the White House brought rusty brown colors into popularity on haberdashers' racks. As executives spent more time in gyms and jogging tracks, new, still-trimmer styles emerged to show off the results.

Changes in women's wear since World War II have been even more striking. Long jackets with square shoulders and short skirts succumbed to the "New Look" introduced in 1947. Skirts worn to work extended anywhere from just above the ankle to the bottom of the calf.

In the early 1950s short slits appeared in skirts. Suits fitted tightly and were topped with scarves. Gloves were mandatory. Synthetics revolutionized materials used throughout the '50s and '60s. Jacqueline Kennedy brought simple, pastel dresses and coats into vogue, along with low-heeled pumps.

Miniskirts in the late '60s put personnel directors in a dither. How high should they allow skirts to rise at work? In Britain skirts were rising so high they were called pelmets (for pelvis helmets). Most companies decided to ban skirts that ended any higher than just above the knee. The crisis resolved itself in the '70s as fashions brought skirts back to knee length and below.

Says Donna S. Balcom, director of education at the Washington School for Secretaries, Washington: "We've always required our students to dress for class the same as they would dress for work. Up until the late 1960s, they were required to wear a hat, white gloves and a girdle. Now we require a 'business dress'—not pants—with nylons and dress shoes."

Clothiers recognize the changing needs of women as they rise in the corporate ranks. Richman Brothers, long a men's clothing chain, is opening "Richman Woman" departments in 52 of its 204 stores. Says Vice President of Ladies Clothing Clifford Hostein: "Women don't have to wear suits that make them look like men, but they do deserve the same type of service and quality associated with men's suits, such as free alterations, the highest quality fabric and a tailored, pulled-together look."

The American Society for Personnel Administration in Alexandria, Va., keeps tab of corporate dress codes. It gathers information on all aspects of personnel regulations. A sampling of current dress reveals that business suits and sport coats with ties are still the preferred office wear for men. For women: Dresses, suits and skirts with blazers, blouses or sweaters.

What will be the corporate dress code 75 years from now? Will ties and collars disappear? Will disposable jump suits become standard garb for both men and women executives? Will uniforms replace individual wardrobes?

Judging from the past, acceptable business attire—never in the vanguard of fashion—will still be considered conservative late in the 21st century. If we today could get a glimpse of it, however, we would undoubtedly be in for shocks and chuckles. ■

To order reprints of this article, see page 65.

MANAGING YOUR BUSINESS

Flexibility For Interiors

A designer advises companies to integrate their corporate objectives with their office design.

By Robert Crawmer

Flexibility is an important element in any business interior. But in the high tech office, it is crucial. To get the best return on today's investment in employees and equipment, an employer must make the environment quickly and easily adaptable to the change that comes with growth. A business interior must be as dynamic as its company.

Certainly the flexibility can be built into the interior's design to help a company make the most of its investment in an office. To do so, the office's design must address not only physical factors, but also attitudes and organizational values. Integrating all three successfully requires planning and effort.

Robert Crawmer is president of Contract Interiors, a Detroit-based interior environment consulting firm, specializing in the electronic office.

Designers can choose from advanced products and concepts that can implement and enhance physical flexibility. Among them are:

- Raised floors designed with cavities that accommodate the cabling and electrical wiring required by electronic equipment.
- Carpet tiles that maintain warmth and acoustical properties while allowing easy acess to flat wire cables carrying power, data and communications.
- Systems furniture with modular panels and work surfaces that can be moved around to make efficient use of available space. These work stations are prewired for electronic equipment.
- Full-height movable walls that can accommodate hanging components.
- Lighting that snaps in and out quickly and adjusts to suit the task and reduce glare.
- Color in neutrals and monochromatic themes for backgrounds and major components that allow easy updating through strong accents, painting and corporate art collections.

But flexibility goes far beyond furnishings. Corporate attitudes about the work environment play an important role. In the past, work stations have been conceived as belonging to one person and having one place. They were also used to confer status. For maximum adaptability, consider these alternatives:

- Work stations that reflect the demands of the job efficiently, yet allow personalization, so the occupant does not feel he has lost status in exchanging a private office for a bull-pen environment.
- Standardized work stations, with fewer configurations and fewer components, encompassing a modular concept.
- Office activity centers rather than cubicles, to give workers a home base station. They would move to centers with required equipment as needed. These should be designed in clusters to enhance daily communication.
- Private offices blended with open areas, rather than all one or the other.
- Costly equipment installed in shared areas, making it more accessible and productive.

Proper planning can ensure that the flexibility companies need is also cost-efficient. For example, relocating electrical and communication cables is expensive. But when the designer is involved from the beginning, he or she can determine the best distribution of power—through floor, ceiling, walls or flat wire cable.

The savings from such planning can be significant.

Moving an electronic work station can cost hundreds of dollars; when the environment is specifically designed to anticipate such relocations, the cost is reduced dramatically.

Such savings are inherent in a truly flexible environment. And when companies recognize their facilities as the most expensive capital asset they have, flexibility becomes paramount. ■

Desk-Top Investing Aids

That white elephant you bought during the PC rush can help you manage your money. It could be the best investment you have made yet.

By Mark O'Brien

Whether you are a long-term stock investor or a short-term options trader, you can probably improve your performance by using a personal computer. Products that were unavailable for less than $40,000 a few years ago are now available for under $1,000. Though they are not simple to use, they are at least manageable for the individual willing to spend a few hours a week at a PC.

Market researchers at Value Line, Inc., a leading vendor of computer-related as well as other investment services, estimate 4.2 million Americans have PCs at home. Value Line, Standard & Poor's, Dow Jones and scores of other companies compete for the software dollars of the myriad investors among them.

Investors who do not already own PCs are a harder sell. Many would rather have their brokers be the experts on computer-aided investing than spend the time and money finding the right products and learning how to use them.

Certainly, computer-aided investing is not for everyone. For starters, it is expensive. The computer will set you back a couple of thousand dollars. Then there are the software products, which combined can cost more than the computer. You will also need a modem, costing several hundred dollars, to allow your computer to send and receive information from other computers over your telephone. Though computer and software prices are falling, the bill to get started could be in the neighborhood of $5,000.

The outlay of time—from deciding which machine and software to buy, to learning how to use it all—is often more painful than the outlay of dollars. The most user-friendly computer and software can be intimidating to the person unfamiliar with them. And, like anything else, you forget what you learn unless you regularly use it.

"It wasn't worth the effort for me," says John Schellenberg, a project manager with ICI, a Philadelphia construction management consulting firm. He says he grew tired of the mechanical and time-consuming chore of sitting in front of the computer recording stock splits, new dividend rates and constant changes in prices. "There's no doubt the computer can help you be a better investor," says Schellenberg. "It's just that I'd rather spend my free time playing squash and have my broker do the computer work."

Mark O'Brien, a portfolio manager in Philadelphia, uses personal computers to help manage clients' portfolios.

Private investor Paula Shepard, of Berkeley, Calif., trained horses for a living before she began using her computer 7½ hours a day to trade stock options. Now she trains horses in her free time.

PHOTO: GEORGE OLSON

His broker, Andrew Nehrbas, of the firm Legg Mason Wood Walker, is fully acquainted with computer-aided investing. Nehrbas says it gives him an edge over competing brokers who rely on traditional ways of selecting and analyzing stocks. Whereas the typical brokerage firm sends monthly reports to clients with only the number of shares and their current prices, Nehrbas' individualized reports show this information as well as the purchase price of every stock, the unrealized gain or loss, annual income from the stock and even its performance measured against the market as a whole.

If a client is interested in a particular stock, Nehrbas can chart the stock's price over the past five years, comparing its peaks and bottoms to those of the market in general. If a client has an exacting standard of stock selection, Nehrbas can probably accommodate it. He can, for instance, screen the 5,000 most active stocks to identify just those that, say, have a market value of $500 million or more, five years of consecutively higher earnings, no long-term debt, a below-average price-earnings ratio and at least a 5 percent dividend.

If all this is available from selected brokers, why would an individual do it himself? For one thing, there is a convenience factor—you don't have to wait to get through to your broker on the phone. For another, many people clearly love the combination of computers and investing.

Paula Shepard, of Berkeley, Calif., is such a person. She was a computer hobbyist long before she was an investor. It is no surprise that her familiarity with computers led her to play the markets, where the slightest edge in information can make an enormous dollar difference. What is perhaps surprising is the extent to which computer-aided investing changed her life. She used to breed and

train horses for a living; now she spends 7½ hours a day following the price gyrations of the Standard & Poor's 100 Stock Index Option and trains horses in her free time.

"I love trading options," says Shepard, "and certainly it is more remunerative than training horses."

The official technical definition of a stock index option (the right to buy or sell an index at a stated price by a stated date) obscures the fact that these instruments are risky and volatile. Weekly price swings of 50 percent are routine.

You don't need a computer to trade index stock options, but, Shepard says, you will do a lot better if you have one. Shepard has a special FM radio connected to her Compaq PC. The radio collects up-to-the-minute price quotations from the major stock exchanges and commodity and options markets, then silently feeds them into the PC. Prices are displayed on the screen. The information then loads into a Lotus 1-2-3 spreadsheet, also displayed on the computer screen, where Shepard can plot trend lines and track moving averages. She can see when the options market starts to move up, and she can gauge its momentum. The result, she says, is that she can better judge when to take her profits or cut her losses.

Does this instantaneous information help her survive in the institutionally dominated index options market?

"You bet," she says. "The first day, I paid for the quotation system several times over on a trade I would not have made without it."

Most investors are not interested in options, with all their complexity and volatility. Surveys show that more than half of stock investors describe themselves as in the market for the long term. Among these, perhaps the best candidates for computer-aided investing are retirees who have taken lump sum pensions. Time is no problem for them—in fact, the entertainment value of learning about computers and investments is often an important part of the decision to manage their own money. Frequently, the money is not enough to interest independent money managers (whose minimum is usually $1 million), but too much to leave with a bank trust department, where the portfolio might be looked at twice a year.

Fred Wilson, of Springhouse, Pa., a retired executive of chemical giant Rohm & Haas, is typical of individual investors who look to computer-aided investing for a slight edge.

Andrew R. Nehrbas (left), a broker at Legg Mason Wood Walker in Philadelphia, and his client, John Schellenberg. Schellenberg used to do his own computer-aided investing, but he decided he would rather play squash in his free time and let Nehrbas use the computer to handle his account.

PHOTO: SAL DI MARCO—BLACK STAR

Wilson bought his PC at retirement. He uses it several times a month to price his stock portfolio and calculate profits and losses for tax purposes. He also uses his modem and PC every night ("for a minute at the most"—computerized data services charge anywhere from $20 to $100 an hour) to obtain and display the high, low and close for a small holding of stock options. Newspaper price listings show only the daily closing price of an option, and Wilson likes to know the high and low to get a sense of the momentum behind a stock option.

"I still go to the library to read *Barron's*, *The Wall Street Journal* and *Investor's Daily*, and I still rely on my broker for stock ideas," he says. "I use the computer for clerical things you just wouldn't want to bother a broker about.

"The computer helps you keep up with what you own. It's good for someone like me who's not in the market daily."

Indeed, computer-aided investing need not be complicated. Consider, for instance, a service provided by Investors Rateline, of Atlanta. By dialing a telephone number and turning on your PC and modem, you can get certificate of deposit rates of hundreds of banks and savings and loans around the country.

The list of CDs, ranked from highest to lowest and updated daily, provides the banks' and S&Ls' phone numbers. You pay no commission to a broker, so all the money you put into a CD goes to work right away. Guaranteed by the FDIC or FSLIC, the CDs can yield significantly more than equivalent-maturity Treasury bonds. The fee for using Investors Rateline? It is $200 for a month of unlimited use or $2,000 for a full year.

Whatever your investment philosophy, you can find a computer-related product to complement it. The question is whether you have enough money and motivation to warrant the cost of the computer and software. Only you can answer about the motivation, but in terms of cost, there are some measures.

Experts say that if you can cover the cost of the computer and software with, say, 8 percent of your portfolio—a portfolio in the neighborhood of $50,000 to $100,000—you should consider computer-aided investing.

Why 8 percent? That is the typical sales commission on a mutual fund. If you can buy a PC and software for a comparable sum, you will make an investment in your own skill and knowledge that should pay off, experts say, and if you already own a PC, you should get started right away. Using a computer in your investing offers greater value than organizing home expenses, cataloging recipes, playing games or making airline reservations—the usual fare of home computers.

Computer-aided investing puts the tools of the professional money manager within reach of the lay person. It is bound to increase over time. Computers and software are plummeting in price, but more important, they are getting easier to use. Whether it is you or your broker who uses the computer, you should acquaint yourself with its potential.

We may be reaching the point where personal computers will be as basic to successful investing as newspapers used to be. NB

To order reprints of this article, see page 65.

Tapping Your Creativity

Business people go back to school, learning to draw on their own creative resources.

By Harry Bacas

"If at first you don't succeed, surrender." Advice for losers? No, part of a novel program to help business people get ideas, solve problems and make better decisions.

"Surrender" does not mean give up and let outside forces take over. It means relax, free your mind of anxiety and let your own creativity provide the solution you need.

We are all creative, whether we recognize it or not. "Creativity in business is a way of life; it is an ongoing process," advise Michael Ray and Rochelle Myers, who teach a course on the subject at Stanford University's graduate school of business. They have just published a book named the same as their course, *Creativity in Business*.

Dozens of successful business people have visited the class to tell how they get their ideas. Some run; some dream; some stare out the window. Many of them are quoted in the book.

"The highest art form is really business," says one, Wayne Van Dyck, founder of a California energy company, Windfarms, Ltd. "It is an extremely creative form and can be more creative than all the things we classically think of as creative.

"In business, the tools with which you're working are dynamic: capital and people and markets and ideas .... [The tools] all have lives of their own. So to take those things and to work with them and reorganize them in new and different ways turns out to be a very creative process."

Helping people find their own ways to realize their creativity is the goal of the course and the book.

Ray, a professor of marketing and communication, and Myers, a consultant, developed the course over six years. It is so popular with students—some of them corporate middle managers sent to the graduate school by their companies—that it always has the school's longest waiting list.

Ray and Myers coach students in how to relax and how to concentrate. They teach Zen techniques of breathing, exercise and meditation to quiet the mind and heighten awareness.

They call their method a "heuristic approach"—focusing on self-directed learning—to discovering and developing inner resources.

ILLUSTRATION: WILLIAM COULTER

Ray, who also conducts a doctoral seminar in communications research and is an expert on the effectiveness of broadcast commercials, says the course "is like a road map," showing directions rather than setting rules.

"People have come to understand that creativity is important in business as well as in art," he says. "But our whole upbringing gets in the way. Our inner blame and criticism hold us back from expressing our creativity. So the first thing we have to do is destroy that inner voice of judgment."

He says you must work to eliminate the conflict between your "Essence"—the source of intuition, will, joy, strength and compassion—and your "False Personality"—the set of attitudes and responses developed since childhood that produce fear, negative personal judgment and "endless chattering of the mind."

This chattering and the barrage of negative judgments inhibit the flowering of your creativity, say the authors.

"Do you remember what it is like to fall in love?" they ask. "It is clear that outstanding business people are successful because they deeply love what they do; they seem to live directly from Essence."

But not everyone finds such love naturally in business. So the authors offer a series of exercises to help the student or reader repeatedly experience his or her own creativity. With practice, they say, it becomes natural to "replace confusion with will, replace fear with strength, replace negative judgment with intuition and replace ceaseless mental chattering with joy and compassion." After these exercises in personal discovery, the rest of the book deals with "inspiration and implementation."

The authors advise using the program as a springboard to finding your own creativity.

"Develop your own heuristics that are right for you. Live by them because they have been successful for you. Nurture your self. Have compassion for yourself and others. Be determined about experiencing a creative life. Become totally absorbed in the moment, in whatever is in front of you to do. Be light and joyous and curious. Give yourself times of peace and silence, even within the business day, even if they are of very short duration. Acknowledge, continuously and joyfully, your Essence, your creativity, your power.

"Every time you experience it [creativity], you increase the probability that it will happen again," they say. Eventually, "you will simply *be* creative." NB

A Creativity Sampler

Chapter headings in Michael Ray and Rochelle Myers' book highlight topics which they also cover in their popular course at Stanford University:

- *Destroy Judgment, Create Curiosity.* Attack barriers to creativity.
- *Pay Attention.* Put your senses to work; look and listen in business.
- *Ask Dumb Questions.* Find your own wisdom.
- *Don't Think About It.* Destroy the problems of time and stress.
- *Ask Yourself If It's a Yes or a No.* Experience balance in your life.
- *Be Ordinary.* Be your creative self all the time.

The New Attraction In Leasing

By Bob Gatty and Martha I. Finney

Boston-based Kings Super Markets, Inc., leaves its transportation needs to trucking expert John A. Simourian and his Lily Truck Leasing Corporation.

PHOTO: RICHARD SOBOL

Every day gleaming white trucks emblazoned with the words "With Love From Kings" ply the highways of northern New Jersey. Fresh groceries are being delivered to the 15 stores operated by Kings Super Markets, Inc.

Although the trucks carry Kings' name as well as its merchandise, the vehicles belong to someone else. The supermarket chain leases its nine-unit fleet from Boston-based Lily Truck Leasing Corporation, a family-owned firm that serves the northeastern United States.

"We're in the grocery business, not the transportation or maintenance business," says Kings' Vice President for Sales and Merchandising Robert Schwartz. "We leave that to the experts."

That expertise includes services provided by Lily that help make sure the trucks run and the merchandise makes it to its destination.

"It doesn't do any good for us to make a terrific deal and have the goods at the distribution center if we can't get them to the stores," Schwartz says.

Kings Super Markets is an example of companies that are choosing what property they will own and what they will lease for a monthly or yearly fee. Businesses are now paying rent on everything from typewriters and telex machines to cellular phones to industrial complexes and commercial aircraft. Companies are discovering that such arrangements not only give them the use of valuable equipment but also, as in Kings' case, take the burden of maintenance off their shoulders.

The leasing method has proved to be a boon for entrepreneurs, both those in the leasing business and their customers. It has become a popular tool of small and mid-sized businesses that need costly equipment and facilities but want to conserve cash and lines of credit. Additionally, the new tax laws might make leasing more attractive than buying for some businesses.

When a business is looking for a computer system, for instance, it might choose to lease the system rather than buy it outright. After weighing all the pertinent factors, including tax benefits and liabilities, the company typically agrees to monthly payments over a five-year period—more or less depending on the equipment, cost and budget. At the end of the contract, the company probably will have the option to buy the equipment at its "residual value"—its remaining worth.

In looking for a lessor, the shopper can turn to the equipment distributor, a leasing company that handles business equipment or a local bank that has a leasing department. With the last two options, the lessor will buy the equipment especially for the customer—in effect financing the system acquisition. The lessor will then charge the customer payments based on the system's initial cost, less its assessment of the value that will remain when the lease expires. At that point, the lessee has shelled out many more dollars, albeit over a period of time, than it would have if it had bought the equipment outright. So, through leasing the system, it actually pays the lessor for the financial flexibility, the tax benefits and the ease of dumping aging equipment later.

The leasing industry has been growing dramatically this decade. In 1980, $40 billion in equipment and facilities were leased. By 1986, that figure had grown to $100 billion, says James R. Lyons, managing consultant with Marshall & Stevens, Inc., a Los Angeles-based lease appraisal and valuation consulting firm.

Leasing's popularity is growing, says Robert W. Stubbs, president and CEO of Paramus, N.J.-based Bell Atlantic Capital Corporation, because it is a service industry, and its salespeople work harder to attract the client, who has the choice of leasing or buying.

Stubbs's Bell Atlantic Capital manages Bell Atlantic TriCon Leasing, Bell Atlantic Properties and Bell Atlantic Systems Leasing. The group is part of Bell Atlantic Enterprises, the largely unregulated arm of Bell Atlantic, the parent company that offers communications and information products, services and financing across the United States.

Together, Bell Atlantic TriCon and Bell Atlantic Systems Leasing form the country's ninth largest equipment lessor in business volume at $680 million annually, says Stubbs. Bell Atlantic Properties is not included because it deals only in real estate.

While the group is mammoth today, its origins are relatively humble. Twenty years ago, Stubbs was president and founder of TriCon, a company originally launched with 10 other St. Louis businessmen.

"We wanted to be able to finance business equipment, so we formed Tri Continental Leasing Corporation as part of the Continental Bank in St. Louis. It was going to be just an additional service for our banking customers," Stubbs says. However, he says, the leasing service grew faster than the bank, so he bought it with $50,000.

Today, Bell Atlantic TriCon has over $1 billion in assets and more than $100 million in net worth. It offers "direct finance leasing" of equipment, including office copiers, medical and dental equipment. Bell Atlantic TriCon buys

Companies, increasingly selective about what property they will own and what they will borrow, are now paying fees for the use of everything from typewriters to industrial complexes to commercial aircraft.

the equipment itself and offers noncancellable agreements to its clients, who are responsible for maintenance, taxes and insurance. It also buys commercial aircraft in partnership with its clients—usually paying 20 to 40 percent of the property's cost. This is called "leveraged leasing." Under this arrangement American Airlines recently received three McDonnell-Douglas DC-9s and two Boeing 767s in a $135 million lease with Bell Atlantic TriCon. Northwest Airlines last May obtained a Boeing 747 and three Boeing 757s in a $200 million deal.

In Phoenix, the General Leasing Company, a much smaller firm, has about $100 million in leases, says its president, Kay Brewer. Typical leases, Brewer says, involve office furniture, medical equipment, printing equipment or store fixtures. Founded in 1961, General Leasing focuses on the middle market, with leases averaging $50,000 but ranging from $1,000 to $500,000.

"We lease to a lot of small business people who couldn't acquire equipment any other way," Brewer explains. "They wouldn't qualify for long-term financing."

In addition to keeping the client company's credit lines open and preserving its capital, Brewer says, the transaction does not show up as a debt on the firm's balance sheet. However, because the monthly payment does show up, this commitment of operating funds could affect the company's eligibility for a loan.

Tax reform is changing the leasing game. The loss of the investment tax credit and the alternative minimum tax are pushing and pulling the hapless business shopper, who often cannot decide whether to buy or lease.

Brewer says that many leasing companies have used the investment tax credit to make money in the business while keeping their monthly fees attractively low. No longer. Marshall & Stevens' Lyons says the loss of the investment tax credit may discourage some activity by lessors, and lease costs may increase somewhat for lessees. As early as January some auto leasing companies announced increases in monthly payments.

Leasing is a service industry, says Bell Atlantic Capital Corporation's Robert W. Stubbs; it is the job of lessors to make the client happy.

The shopper also does not get an investment tax credit on business purchases. So the incentive to buy is reduced as much for the shopper as for the lessor. Because of this, there might be more shoppers knocking on the lessor's door, and increased business volume might keep payments down.

Lyons says another factor comes into play—the alternative minimum tax, which is designed to make sure every profitable company pays some tax. If your tax consultant determines that your company is likely to be subject to the alternative minimum tax, your decision to lease instead of buy could affect your tax bill. Under the regular tax, when companies depreciate their equipment, they must use an accelerated system (usually 5 or 7 years, depending on the property, at the corporation's tax rate).

"Under the alternative minimum tax, they will use a less accelerated depreciation and take the deduction over a longer life," says Gerald W. Padwe, national director-tax practice at Touche Ross & Co. If the corporation's tax bill would be higher under the new alternative minimum tax, that system would be used, and depreciation would be taken over 7 to 13 years. Without the investment tax credit and with the alternative minimum tax, leasing—even with the higher payments—may become relatively more attractive. All rental payments are completely deductible under both the alternative and regular tax systems. This rule goes into effect for fiscal years after 1986; see your tax consultant for help with this complicated issue.

In any case, Michael Domino, a vice president with General Leasing, says business people should base their decisions on how much the equipment is needed and the financial terms of the deal, rather than on tax considerations alone.

"The choice is getting a leasing deal from a company that is eligible for the accelerated depreciation or buying the equipment yourself," agrees Larry Dildine, a tax partner with Price Waterhouse. "Just deducting the payment is not any help. You have to make the payment, too. Look for a lower monthly payment, and make sure it is ultimately a better deal than owning it yourself."

And don't forget that you will be committing yourself for several years to a relationship with your lessor. Make sure that company is one you will be able to work with comfortably, one that will be able to provide you with the services you need.

Linda Jemison and Lucinda Crabtree, partners in an Arlington, Va., graphic design firm, Crabtree & Jemison, Inc., came close to leasing a $5,000 copier but changed their minds and bought at the 11th hour—all because of the lessor's attitude.

"I had interviewed several lessors and found one that I really liked," says Crabtree. "I liked the salespeople, and I felt they would be there if we needed them. The leasing company is about 75 percent owned by the copier people, so the sales staff would have direct access to the leasing agent if there was trou-

ble. That was another reason why we thought they would be a good bunch to go with."

But the relationship began to disintegrate. After reviewing the design firm's financial statements, the leasing agent wanted Crabtree and Jemison to personally sign for the commitment—despite their business' solid fiscal footing.

"It's not as though we never had leased before," says Jemison. "We are leasing our Compugraphic typesetting machines, which are far more expensive than the little copier. No problem. And the Compugraphic leasing company is owned by Chase Manhattan Bank. Chase Manhattan didn't get to be Chase Manhattan by being an idiot.

"Here this little local leasing company had the nerve to treat us so rudely," she says. "So we stuck our noses in the air and marched over to the bank."

Crabtree & Jemison borrowed $5,000 at 12 percent and bought the copier directly from the manufacturer. "The manufacturer gets the money, plus a $300 yearly service contract, and the bank gets the interest," says Jemison. "The leasing company lost not only the $5,000 the copier is worth but also another $5,000 in finance and service charges it would have earned."

"Many times leasing is more expensive, particularly in smaller transactions," Bell Atlantic's Stubbs says. "But it is so convenient that it becomes attractive." Frequently it is easier to commit to low monthly payments than to get approval for a large outlay of funds.

In Hamilton Township, N.J., for instance, the school board has had difficulty persuading voters to approve a bond issue to pay for construction. The board now is considering finding a financier to pay for the building, which it would lease to avoid the need for voter approval.

Another consideration should be the longevity of the items leased. Computer equipment is a popular lease item, particularly because it quickly becomes obsolete.

In Phoenix, Kay Brewer says her General Leasing Company provides office equipment to "a lot of small business people who couldn't acquire equipment any other way. They wouldn't qualify for long-term financing."

PHOTO: DON STEVENSON

To Lease Or Not To Lease

Acquiring an expensive piece of business machinery is not as simple as picking up a packet of pencils. Long-term investments and commitments require extensive thought and weighing of all the variables. Leasing just might be your method of choice—then again it might not.

There are general rules of thumb that can help you decide what is right for your company. George N. Christie, executive vice president of the Credit Research Foundation, Lake Success, N.Y., lists some pros and cons of leasing:

Advantages

- Depreciation might not help offset profits for new or small companies, so there may be no advantage in owning.
- A company that can use depreciation to offset profits may still have to pay alternative minimum tax. In that case, leasing may result in a lower cash drain on the firm.
- Lease payments are tax deductible.
- Lease payments do not vary with interest rates, whereas commercial loans often do. Thus, leasing improves a small firm's ability to budget expenses.
- Monthly leasing payments are lower than capital outlays.
- When leased equipment is obsolete, it can usually be replaced easily.
- There is flexibility in trading up.
- Leasing allows the firm to show greater financial strength since all resources are used as working capital rather than for plant and equipment.
- It is an accessible source of credit that often is simpler than bank financing. Many leasing companies are responsive to smaller businesses' needs.
- Some leases provide a "window" allowing the customer to cancel at specified times during the contract.

Disadvantages

- The total paid is much higher than the cost of purchasing, since the lessor must also make a profit.
- Some leases come with severe contract restrictions regarding cancellation, renewal or purchase option.
- At the end of the lease you own nothing, unless you pay an additional price.
- The useful life of the equipment may exceed the term of the lease. If you lease a piece of equipment that you think has a five-year useful life but turns out to have a seven-year useful life, you could lose the last two years' use of the equipment, unless you pay the extra cost.
- A continuing cash outlay may hurt more than a one-time bite.

"You could finance the full payout," Stubbs says. In that case, the equipment belongs to you, and your payments are based on 100 percent of the cost, plus interest. However, "three years from now, that equipment will be worth 25 percent of its original cost," he adds. "We take that into consideration, so payments are less." At the end of the lease, the equipment is usually up for sale.

Not all high tech items are good candidates for leasing, however. Some manufacturing machinery, for example, is so unique to its company that the lessor would not want it once the contract expired. Auto industry supplier LeRoy Industries, for example, might lease forklifts and other vehicles. But it buys outright the very specialized machinery needed to make suspension parts for Ford, General Motors and Chrysler cars.

"Most of our equipment is very specific in nature and must be specially made to our specification," says Charles Teets, vice president and chief financial officer at the LeRoy, N.Y.-based company. "It takes about a year to make the machinery we need. It would be very hard to find a lessor interested in our type of equipment because of this long lead time. After the lease expired, no lessor would want the equipment back."

But even with more traditional items, some companies just are not convinced leasing is better than buying. Helen Bland, manager of the 1,500-vehicle fleet belonging to Hallmark Cards, Inc., Kansas City, Mo., says there is no reason for Hallmark to lease.

"We have the personnel to handle all aspects of fleet management, and cash flow is not a problem," she says. "We have much better control of our cars" than if they were leased.

She adds, however, that "a small company that does not have the necessary purchasing power may be better suited to leasing," especially if cash flow is a concern or if there is not enough work to keep a fleet manager busy.

"Leasing conserves capital," Robert Stubbs maintains. "If a business needs a $100,000 piece of equipment, we'll finance $100,000. The nice thing is that we have lessees whom we've done business with since 1970. We've seen them grow, and we've grown with them." NB

To order reprints of this article, see page 65.

PEOPLE

Making It

Combine a small firm's personal touch with big companies' business practices, and you get a Colorado success story.

The Best Of Two Business Worlds

Donald E. Cohen credits wife Terry with having a lot to do with turning their audiovisual company, Cimarron Productions in Denver, into a thriving enterprise. Her secret? Running a small business as if it were a major corporation.

In the Rocky Mountain West—where verbal description rarely does justice to visual majesty—Donald E. Cohen has created a booming business that puts words to pictures.

Cohen has made a small audiovisual production company a tough competitor for larger rivals, primarily in Los Angeles and New York. He gets blue chip clients that normally could be expected to gravitate to bigger firms.

His Cimarron Productions has done so, he says, by giving clients personal attention that is often lacking at big firms and employing business practices often lacking at small firms.

Cohen got a taste of his future business while he was a student at the University of Denver, where he majored in mass communications. He financed a month-long trip to the Himalayas by selling photos he made there to producers of a geological film strip.

Cimarron Productions was launched in the basement of his suburban Denver home in 1978. Cohen was 24.

He found himself running a complicated one-man show, selling, writing, taking photos and keeping the books. Irrepressible enthusiasm—and obvious talent—took Cimarron in three years from $50,000 in gross billings to $127,000. Cohen hired two employees.

But further growth was hard to come by. "I had an image problem," Cohen says. "I was working out of my home, and it was difficult to get corporate types to take me seriously."

To overcome the problem, he leased office space in 1982 and filled it with new equipment and furniture. To finance the move, he took a second mortgage on his home, borrowing $100,000.

"We gained an air of legitimacy," Cohen says. "But then came the recession." Although business was so slow that Cohen could "play a lot of tennis during that time," he and his employees persevered. Eventually, the business turned the corner—and then took off. By mid-1983 hirings were necessary, and Cimarron had to move. The doubled rent that the new location commanded once again put the firm on shaky ground.

PHOTO: DUANE LOFTON

Then another change turned the company's fortunes around for what appeared to be for good.

Cohen's wife, Terry, wanted to return to work after the birth of their son. She decided to join Cimarron.

As the company's new vice president of marketing, Terry Cohen began a telemarketing campaign that included as many as 200 cold phone calls a day.

She also instituted simple business procedures she had learned while working at larger companies. "We decided to try to run our small business along the lines of a big business," Cohen says.

Cimarron now has an employee handbook, outlining standard operating procedures and company purpose. Staff meetings are held on a regular weekly basis, with all projects in progress discussed and ideas shared. Every other month, there is a critique session at which recent projects are reviewed, then compared to earlier work to see if and how the company has progressed.

All company financial matters, from accounts payable and receivable to inventory to work estimates, have been computerized. The company—its staff now totals nine—has been making a profit year after year. In 1986 it grossed $550,000. Cohen recently turned down a buy-out bid.

Sixty percent of Cimarron's business is producing custom slide and videotape shows. The rest ranges from stock photography to development of custom audiovisual conference rooms.

Cimarron's client list features some of Colorado's biggest employers, including AT&T, Coca-Cola, Diner's Club, Martin Marietta and the University of Denver. "Very little of what we do is seen by the public," Cohen says, noting that most of Cimarron's work involves high-level, business-to-business communication.

Cohen knows that he must eventually expand geographically or offer new services in order to keep up with his competition.

"You either change or you perish," he says. "But we never want to get too big, too high-priced or too overcommitted to outside markets."

—*Howard Rothman*

Innovators

"Most employees have undiscussable issues. They fear for their jobs; they fear for their advancement, and they hold back."

By Sharon Nelton

Discussing The Undiscussable

ILLUSTRATION: CAMERON GERLACH

Every company has its "undiscussables"—things that people can't or won't talk about. But not talking about them can keep a business from moving forward, contends Washington management consultant Kathleen Wiseman. At worst, not talking can even mean the death of a company.

An "undiscussable" is a troubling item or issue that needs to be discussed, explains Wiseman. But a business owner or employee may be afraid to raise the issue because doing so may make someone angry or because the issue cannot be resolved to everyone's satisfaction. Or because there may be other repercussions.

Consider the shipping department head who knows that he's not getting the service he needs from one of his company's outside carriers. But the man who owns the outside company is a close friend of the shipping head's boss. The shipping chief is afraid that, if he raises the question of poor service with his boss, friendship will win out, and the matter will not be resolved.

"My experience is that the head of shipping begins to get less and less careful about cost-saving efficiencies, because this one area sits in his mind, and he can't discuss it with his boss," says Wiseman. "It's only at a blowup or a point of departure where this issue will come up."

Usually, Wiseman says, undiscussables center on relationships among people and relationships of people to a company. For example, the head of one department may feel that the head of another is not earning his keep. Resentment builds up between the two and inhibits their ability to work together. In a family business, the question of who will succeed the head of the company is often an undiscussable.

In one consulting company, Wiseman says, a high-level employee has been getting negative feedback from clients on the firm's main service. The service was on the mark 10 years ago, but now it is getting outdated. The employee can't bring himself to raise the problem with his boss because the boss created the service, and it is the foundation of the company's success.

Yet it is crucial for that company to address the problem. If it doesn't, Wiseman points out, the company may find itself out of business.

If you are a business owner, you need to let your people understand what you consider the pressing issues of running the business, advises Wiseman. You also need to create a climate that enables your people to raise undiscussables with you.

"I think most employees have undiscussable issues," says Wiseman. "They fear for their jobs; they fear for their advancement, and they hold back."

If you own or run a business, Wiseman suggests making a list of all the items you would like to discuss but can't. Then choose one or two priority items that you would like to address in the next six months or so.

Chances are, she cautions, there will be so much intensity around each problem that the person you need to discuss it with cannot "hear" the issue.

Bringing in a third party can help. A consultant, a trusted employee or an outside adviser, such as a lawyer or accountant, can serve as an objective go-between, helping individuals see each other's point of view.

If you are an employee, Wiseman warns, there may be little you can do unless you are very secure and have very good interpersonal skills. An employee needs to be very strategic, assessing the time and location as well as his own ability to handle touchy subjects. It is important that he be over his anger or frustration when he brings up an undiscussable; otherwise, his manager will hear only the emotion.

Wiseman suggests handling the situation in small stages, first telling the boss, "I need to talk with you about something that would be of interest to both of us." Limit the first discussion to 15 minutes, "This issue is important to me and because you are my manager, I know that you would like to hear it." Ask your boss to let you talk about the issue and hear you out, with a meeting to follow in two weeks when you can both talk about it.

An employee might also choose to bring in a third party, but he should not bring in a group of fellow employees to gang up on the boss. The third party should be someone trusted by both; his role is not to take sides but to make sure both sides are being heard and to neutralize the intensity of the meeting.

"I see being unable to discuss important issues as a real hindrance to productivity," Wiseman adds. The goal, she says, is to turn the undiscussables into discussables.

PEOPLE

Making It

The road to success can lead you to gourmet foods or specialty light bulbs—or to hard work in a new country.

Groceries With Glamour

Russ Vernon's West Point Market has made its mark in the grocery world by offering a tantalizing selection of gourmet items to Akron, Ohio, customers who don't want to give up good food—just the work of preparing it. Vernon says he sells service and carefully weighs the offerings of suppliers like Myra Sable.

PHOTOS: BRUCE ZAKE

In 1978, Russ Vernon of Akron boarded the first car of one of the grocery industry's fastest-moving bandwagons. He put three kinds of salad on sale in a corner of his market's meat department.

Vernon, president of West Point Market, which his father cofounded in 1936, noted the trend toward gourmet-to-go items in New York City and felt the idea would enjoy equal success in the Midwest. "I knew this was the way we were going to go," he says.

Now West Point's prepared foods department, dubbed "The Movable Feast," occupies its own counter, gained in a 1980 expansion that doubled the store's selling space. Yet another expansion, due to begin next month, will once more double the size of the store and ultimately will yield 56 feet of sales space for Movable Feast specialties such as asparagus lasagna, cheese-filled tortellini with ham in mustard vinaigrette, and, the most popular dish, white meat chicken salad dressed in tarragon-flavored mayonnaise.

"Our customers are two-income professional families that have absolutely everything—except time," Vernon says. They certainly have healthy appetites. Prepared foods sales for the six months ending Sept. 30, 1986, were almost double those of the same period the year before and represent about 12 percent of West Point's $5.4 million total annual sales. "Most stores' deli and bakery sections are in the 6-8 percent range," says Vernon.

Ready to fill an upscale dinner plate are shrimp quiche, stuffed breast of chicken, and chicken and vegetable stir-fry, all nestled in stylish European display cases. Fresh brioche and loaves of French bread beckon from the in-store bakery, along with "Killer Brownies"—dense diet demolishers stuffed with chocolate chunks and nuts and ribboned with a surprise layer of caramel.

Surprise is an element throughout the store. Sharing a shelf with familiar Hershey's syrup, for example, is Original Sanders' Fudge Bittersweet Topping, and genuine U.S. Senate bean soup coexists with Campbell's ubiquitous red and white cans. "We try to add a different touch to everything we do," says Vernon, who seeks the unusual on twice-yearly trips to New York City and regular jaunts to other areas.

West Point's genial proprietor markets his finds with theatrical flair—a high tea, complete with bagpipers, for a British products promotion, Sousa marches for a "United Tastes of America" event—and, always, copious samples. The seductive aroma of quality coffee invites you to pour a cup of one of three types brewed daily from the store's 36 selections of beans. The cheese table holding samples of seven or eight of the 350 varieties on sale entices the customer to take home a larger chunk. Asks Vernon, "Why would anyone buy an $8-a-pound cheese unless he or she has tasted it?"

In the spring of 1984 he added another weapon to his marketing arsenal: a six-page newsletter mailed quarterly to an ever-growing customer list (now over 5,000) developed from the store's guest register. A typical issue includes a front-page message from Vernon highlighting upcoming West Point events, columns on both wine and cheese, menus and recipes using featured products and an in-depth article (one recently explored the nuances of olive oil) by West Point's director of specialty foods, Kay Schulze. "It's just another service to the customer," Vernon says. "Of course, we highlight products we sell, but we also seek to educate and to entertain."

With such careful targeting and inventiveness, Vernon has secured his market niche and earned national recognition, including an Excellence in Merchandising Award from the Nation-

Making It

Groceries With Glamour

al Grocers Association and a prestigious Silver Spoon Award from the National Association for the Specialty Food Trade. (Other Silver Spoon recipients have included food mavens Julia Child, James Beard and Craig Claiborne.)

No matter how extensive his selection of cheese, upscale entrees and wines (2,220 different wines, precisely), Vernon insists that his real product is service. "You don't make a profit on a piece of cheese," he says. "You make a profit on a satisfied customer." The instant a patron hesitates, one of Vernon's 76 well-trained employees is there to help. "The main thing that powers this store is people," he says.

Vernon feels this emphasis on service and his narrow specialization insulate him from direct competition with conventional supermarkets. "Things that are staples elsewhere are convenience items here," he says. "We sell sugar and toilet paper, but they're here as a service. They're not why people come here."

Although a price war among Akron grocery chains early in 1986 badly hurt some independents, West Point's business was unaffected. "We're almost not in the same business [as the grocery chains]. There's not another store in the area trying to do exactly the same thing we are," Vernon says.

To get and keep the good people so important to his labor-intensive business, Vernon has instituted liberal employment policies that include generous vacations, even for part-time workers, profit sharing and hefty cash incentives for skilled personnel who remain with the company. Other manifestations of Vernon's "people first" philosophy include promoting from within whenever possible and limiting hours despite a regional rush to round-the-clock supermarket operation. "We're closed after 7 p.m. and on Sundays," he says. "That's family time."

Most important, Vernon says, is his accessibility to employees—from bag boys to department heads—and the public alike. "I'm not out on the golf course or headquartered in Chicago," he says. "I'm here." Vernon greets his customers personally and has been known to sack groceries himself. "It's just part of taking care of people," he insists. "When a woman spends $100 a week in your store, you ought to learn her name. And when an employee has an idea to offer, you'd better be there to listen."

—*Jan C. Snow*

PEOPLE

Frances Thaw has made a specialty of finding just the right bulb for every lighting need through her Farmingdale, N.Y., company, Bulbtronics.

PHOTO: WAYNE SORCE

The Bulb Broker

Imagine a world in which all the light bulbs burn out—not just those in room lights, but also in microscope lamps, operating room fixtures and emergency flashers. That will give you some idea of how essential Bulbtronics' wares are to modern life.

The specialty light bulb company, founded 11 years ago by Frances Thaw in Farmingdale, N.Y., stocks and distributes about 15,000 types of bulbs ranging from pinhead size to some standing six to eight feet tall. Prices vary from 8 cents per bulb to as much as $8,000 for a giant searchlight bulb.

Thaw, who is "over 50," became an entrepreneur after the importing company where she had worked for 10 years shut down in 1976. That company had imported light bulbs from Osram, a German supplier. Thaw obtained a distributorship from Osram, which welcomed the opportunity to retain a U.S. sales representative.

Thaw's husband gave her a rent-free niche in his Farmingdale engineering office and 500 square feet of warehouse space. With that, and $15,000 of start-up money, she was ready to begin.

"The first year I took no salary—none. I put everything back into the company," she says. Her morale was sustained in those early days by a favorable reception from customers, which convinced her that the big money would come—eventually. Thaw didn't enjoy her company's profits until after the third year, when she bought a new car and "a few luxuries I had been doing without."

With sales expected to hit $7.5 million in 1987, Bulbtronics now has 34 employees and 11,000 customers. Thaw attributes her company's current health and its 20-30 percent yearly growth to several factors, primarily the huge variety of light bulbs it offers. "When you need a specialty bulb, an oddball bulb, you can go to Thaw and you'll get it," says Bob Mangano, president of the National Association of Independent Lighting Distributors and head of The Bulb Man, Inc., a local distributor in Buffalo, N.Y.

Thaw keeps her overhead down by stocking the more unusual items in small quantities and making sure she has a market for them. "The turnover is the important thing," she says. Those uncommon bulbs don't just sit there; she turns over her inventory six to seven times a year. If the brand name bulb you need is no longer manufactured, Bulbtronics can often find you a suitable substitute in its inventory. When all else fails, Bulbtronics arranges for custom production.

Customization is also the key to the company's recordkeeping success, vital to an operation with such a large and varied inventory. Thaw's daughter, Susan Thaw Winters, is vice president of operations and the architect of Bulbtronics' specially designed computer system. In addition to the usual accounting and inventory functions, the system cross-references every bulb by brand name, generic code and uses. Because of its extensive data on so many different suppliers' wares, several bulb makers have wanted to purchase the system, but Thaw's response is firm: She's not selling. "That information is part of the success of Bulbtronics—it's our 11 years of experience in the business," says Thaw.

Plans for Bulbtronics include a West Coast office this year and a subsidiary called OEMlite, specializing in bulb sales to original equipment manufacturers, as Frances Thaw follows her vision of an ever brighter future in the lighting business.

—*Karla Harby*

"Good products and good service make a good business," says Ucho Lee, and good business-buying decisions require extensive shopping around, plenty of expert advice and a strong dose of good luck. Another element in this immigrant's success: long hours.

PHOTO: RICK FRIEDMAN—BLACK STAR

Taking A Chance In A New Country

We tend to think of immigrants to America as people who are fleeing hardship. That is not true of Ucho Lee, who in 1974 gave up a secure future in South Korea to gamble on carving out an even better one here.

In Korea Lee owned a food distributorship, which he had bought from the government with money a wealthy aunt gave him. Today, after years of struggle, he owns five businesses and three buildings in Boston, as well as a suburban home with tennis courts. He wants to (1) make a billion dollars in the next decade and (2) create a nursing home for Orientals in Boston.

If Lee, 44, achieves those goals it will not only be because he is willing to take chances, but because he also is willing to work hard—and to shop carefully for business opportunities.

When he came to America, he lived in Arlington, Va. He worked as a carpenter; his wife, Yong, worked as a waitress. "We were trying to get our feet on the ground," Lee says. "Even though I didn't come here penniless, we didn't know English. We were starting over."

Lee began shopping for a business and in 1980 bought a neighborhood convenience store in Boston. Ucho and Yong ran the store, renamed Lee's Supermarket, from 7 a.m. to 11 p.m. seven days a week. "I worked 16 hours a day for four years," says Lee. "The former owner paid managers and employees to run the store. I don't know how he made money."

His retail philosophy—"good products and good service make a good business"—helped him make the store profitable enough that he could hire a manager—a Korean-born brother-in-law—and expand.

Lee bought other stores, and he began to make real estate investments. He now owns three commercial buildings in Boston and has formed Lee's Enterprises, Inc., which includes Frankie's Laundry, Frankie's Cleaners, Bella's Mart and A-1 Cleaners, as well as Lee's Supermarket.

Lee operates Lee's Enterprises from a spartan office upstairs at Frankie's Cleaners.

"My father always told me that earning money is easy," Lee says. "Investing it correctly is the hard part."

His investment system includes—in addition to extensive shopping—expert advice and, he says, luck. "Because I'm not good with English, I shop," he says. "I'm not just looking for the best deal, I'm learning about the business.

"I get the best advice I can. I call people in the same business or neighborhood and ask questions. I consult my lawyer and my accountant. Then I pick three trusted advisers, get their final opinions and make my choice. That's where the luck comes in."

He says that he once "discovered that one of my advisers had made an offer on a piece of property I wanted after he learned about it from me. Evidently, he thought it was a good deal.

"It hurt, because I trusted him. But I learned a lesson. I'm careful now in giving information, even to advisers. I don't like the kind of competition that hurts people. If someone wants a piece of property I'm interested in, I'll find another. Success is setting and meeting goals, not beating someone else."

He says he has developed the insight to recognize trustworthy people. "I pay my lawyer and accountant more than most, but—because of the language differences—I need them more. The extra money lets them know I appreciate their loyalty."

Employees get three chances before being terminated. "People are good inside," says Lee. "Situations can cause wrongdoing, so I prefer to give the good a chance to surface."

The Lees have two sons, and Lee considers himself a good father as well as a good employer. He spends as much time as he can with the boys.

Jason, 16, an honor student, wants to be an accountant or doctor. "I don't want to take over my dad's business," he says. "He works too hard."

Tom, 15, may follow in his father's entrepreneurial footsteps. He likes the idea of working for himself.

Yong concentrates on the Lees' home, on relatives who have followed them to Boston from Korea and on tennis. "Ucho makes most decisions," she says, "but he does listen."

Lee plans to meet his billion-dollar objective through real estate and, possibly, an importing and wholesaling business. He has begun shopping.

His nursing home goal grows from experiences of non-English-speaking members of his family. "Both my mother and my mother-in-law live here now, in a nursing home where they have to talk to most people with their hands. Communicating is hard enough on me, but for them to struggle doesn't seem fair."

Lee says he hopes "to see Orientals create a place for themselves in this country and make contributions like other ethnic groups have. We must grow roots and build an economic base and a political one.

"Maybe I can retire as the father of a U.S. senator."

—Lesley H. Whitson

Brothers Bob (left) and Louis Whittaker oversee the production of egg rolls in their Sapulpa, Okla., factory. Last year their company, 4W, grossed nearly a million dollars, largely on the success of these hand-rolled tidbits.

With Repossession You Get Egg Rolls

PHOTOS: STEVE JENNINGS—PICTURE GROUP

Brothers Louis and Bob Whittaker are egg roll kings—Oklahoma-style. They live in the small town of Sapulpa, Okla.—population 22,000—where they manufacture King Toi egg rolls. The name, like the product itself, is half Chinese and half Oklahoman, and together the words mean "I am the king."

Louis, 67, and brother Bob, 60, look back in amazement at their joint success in a field they had previously known little about. Bob owns and manages several grocery stores in Oklahoma City as well as a restaurant in Sapulpa. Louis was an Air Force pilot for six years before he established himself back home in a Sapulpa real estate brokerage firm, a construction company and a shopping center that he built and owns.

Four years ago the two successful businessmen, always interested in something to "keep us busy," provided financial backing to a Vietnamese refugee trying to get a start in the United States. The refugee imported an egg roll machine and began an oriental foods business. However, his inexperience in the business world proved a liability, and within two years he went bankrupt.

Suddenly the Whittaker brothers owned an egg roll machine. As Louis explains, "That machine just fascinated us right into the egg roll business."

The stainless steel machine is comprised of two sections. In the first, dough is poured into a cone-shaped hopper. A heated wheel works the dough, measures out set amounts and partially cooks it; then rolled dough is cut into paper-thin 9-inch squares. The still soft, partly cooked squares come out on a conveyer belt where a second section of the machine deposits measured amounts of filling on each. Two workers quickly roll the corners up, by hand. The belt then carries the rolls on to the next room where the cooking process is completed.

Hand rolling ensures an egg roll chock full of filling, lacking the "empty ends" that mark the machine-rolled variety. Dough handled by a human's delicate touch rather than by a mechanical arm can be rolled thinner, rendering a much crispier final product.

With the help of a state technical

training program, the Whittakers' employees have worked out a technique of putting the filling onto the warmed dough and folding the egg rolls for baking at the rate of 150 finished cases (each containing 48 egg rolls) per 8-hour shift.

The Whittakers' company, 4W, offers the only bulk packaged, hand-rolled egg rolls made in the United States. "We just built a factory around the machine and started 4W," says Louis. Built by his construction company, the factory sits in the middle of what was once a pasture.

"We experimented with recipes that suited our tastes," Louis explains. "And people like our stuff, I guess." The brothers Whittaker grossed close to $1 million last year from 4W, and they expect to gross well above that figure in 1987.

Because of its large national market, 4W participates in the USDA inspection program rather than one regulated by Oklahoma. "There aren't many prepared food factories in this part of the world," says Bob. "We have one that meets *all* federal specifications, including the glass-walled office overlooking the egg roll machine. That's where the federal inspector must be sitting on duty whenever the pastry wheel begins to turn on that machine."

In addition, Whittaker quality control personnel hourly monitor cooking temperatures, the accuracy of the machine's scales for weighing out portions and the final weights of finished cases of egg rolls, and then they report their findings to the ever-present federal inspector.

The Whittakers are proud that theirs is the only hand-rolled egg roll sold to the bulk market. Without the machine's help, the cost of making hand-rolled egg rolls in large batches would be prohibitive. With it, 4W is beginning to break into national markets.

The brothers also say that international food shows have given them a grand showcase for their delicious oriental-style tidbits. After every show they've come away with thousands of dollars in orders for King Toi.

Now these two Oklahoma entrepreneurs are starting another foreign adventure—this time with Italian foods. They are presently taste-testing pizza rolls, with pizza dough wrappings made on their egg roll machine.

Louis and Bob predict another hit.

—*Peggy Moss Fielding*

Personal Management

To Your Health

By Carol Dilks

For these employees of Digital Equipment Corporation, Maynard, Mass., brisk lunchtime walking is the way to stay in shape.

PHOTO: RICK FRIEDMAN—BLACK STAR

Life In The Slow Lane

First light in Manhattan reveals a fairly odd collection of people on the street. There are bag ladies and vagabonds, recuperating revelers, bleary-eyed workers and a good number of joggers. Striding among them all, seemingly oblivious to their curious looks, Stuart Pollack race walks—not jogs but *walks* his set of nine-minute miles.

Though everyone thinks jogging is more macho, Pollack, a textile executive, knows the wisdom of life in the slow lane. "If I'm going to invest 40 minutes of my time," he says, "I want the most benefit. Walking works my whole body. It gives me a better return on my time investment than jogging."

For many health and fitness enthusiasts, walking seems too tame, even wimpy. They think it is too easy to do any good. But let them try to walk above five miles an hour, and the word "wimp" would wither on their lips. Their argument fades long before that, since experts find that fast walking gets one's heart going at the right rate for fitness as well as any other aerobic exercise, including jogging and cycling.

Carol Dilks is a Philadelphia freelance writer.

For busy people like Pollack, who is vice president of Jomark Textiles, a linen and domestics distributing company, setting aside time to go to a gym is out of the question. He chooses to walk at an extraordinary pace for a brief time rather than doing the average fitness pace of four to five mph over a longer period. His results are pleasing: At 48, he weighs just about what he did in college, and he feels great.

The Walking Club of America says fitness walking is now the major exercise of 55 million Americans, and that includes a lot of former couch potatoes because *anyone* can do it.

Walking takes no special equipment, though good walking shoes are generally recommended, and it can fit into most schedules. The basic program, devised by the American Heart Association, is an easily managed 20-minute walk three times per week at a rate of 3 to 4½ mph.

The benefits are ample. Walking makes the cardiovascular and respiratory systems stronger and more able to respond to body needs without undue stress. The muscles become firmer, joints more flexible and bones denser from increased use.

Walking is a good calorie burner when done for a long enough time or at a brisk enough pace. If you stroll (two mph) for two hours, you can burn 300 calories. Up the pace to four mph, and you burn them off in 54 minutes. Add two 5-pound weights and the time slips down to 50 minutes, according to Rob Sweetgall and Dr. James Rippe, co-authors of *Fitness Walking*. This would be enough, they point out, to balance your accounts against a McDonald's cheeseburger.

Lack of injuries to walkers is a trump card for this exercise. In fact, it is the reason why many jogging dropouts, tired of dealing with joint and muscle problems, become walkers.

Another great advantage of walking is that, if you are over a year old, you already have the technique down pat. You may want to pick up some pointers on style, or learn how to expand your routine with weights, but you are already a successful walker.

Before heading out the door, though, a few simple points should be considered:

Anyone who is over 35 and inactive, or under 35 and smokes or has coronary problems, high cholesterol levels, high blood pressure or other serious conditions should get a doctor's approval first.

Warm up before you walk. Stretch for five minutes or so to get the legs ready for the activity. Use the same stretches to cool down after the walk.

Walk at a pace that is appropriate for your level of fitness. Your aim is to get your heart rate up to a target range, computed by subtracting your age from 220, then taking 60 to 80 percent of that figure.

Rockport, one of the many shoe manufacturers that designs shoes specifically for fitness walking, has developed a set of walking programs geared to different levels of fitness. For a complete out-of-shaper, for instance, it recommends starting with a warmup, then one mile at a pace of three mph, then a

cooldown, all done five times per week. For a very fit individual, the routine builds up to four miles at a pace of 4½ mph, five times per week.

The general rule is never to walk so much or so fast that you could not repeat the routine within 24 hours.

"Take it easy in both intensity and duration," cautions Sweetgall, who has walked the 50 states—11,600 miles—spreading the word about walking. "You can take two years to build up to four miles and still get all the health benefits."

Walk with legs striding as far forward as possible. By following through with the hips, you can extend that swing several inches, increasing your speed.

Swing your arms if you are a beginner, but work up to really pumping your bent arms, like a sprinter, to get a good upper body workout and more aerobic effect.

Find a pleasant environment for the walk and try to vary your routes, pace and distances.

Walking is not new. It predates fire, the wheel, even the VCR. But now it is in the spotlight. Finally there is something we can enjoy that, as far as experts can tell, is actually good for us. NB

For Your Tax File

The 1986 tax law means preservation of some companies' "golden parachute" provisions, incentives to discourage bailouts of senior managers in takeover threats.

By Gerald W. Padwe, C.P.A.

How Golden Are Your Parachutes?

Frenetically paced corporate acquisitions and takeovers in the past several years have spawned the "golden parachute" as one of management's lines of defense.

Corporate boards feel that signing agreements with top officers to grant them severance payments out of all proportion to their annual compensation will help prevent early bailouts of senior managers in the event of a takeover threat. They also reason that the potential cost of funding these parachute payments will give the would-be acquirer at least momentary pause.

The prospect of that pause gave Congress pause. It perceived the deterrence to acquisition brought on by parachute agreements as an artificial barrier to the working of the free market system.

Indeed, in order to use the parachutes, top officers might even encourage consideration of acquisitions of their companies that might not be in shareholders' best interests.

In 1984, Congress decided to use tax laws to discourage golden parachutes.

The restriction hinges on "reasonable compensation." Any payment to an officer, shareholder or highly compensated employee exceeding three times average annual salary and made in connection with a change in control of a business becomes nondeductible to the paying corporation. On top of that, the receiving employee or shareholder must pay an additional 20 percent tax on the payment.

If the average annual compensation for a CEO is $100,000 and he receives $300,000 as a severance payment on acquisition of his company, the restrictions are triggered, and only the amount shown to be for reasonable compensation is deductible.

Assume that reasonable compensation is $150,000. The corporation receives no deduction for the balance, and the CEO must pay a 20 percent additional tax on that income.

Unfortunately, the original law's language was so broad that a number of small business managers have been unintentionally snared. When a closely held company is sold, payments to shareholder-employees (or other key employees) often far exceed annual salaries. The triggering rules take no account of the nature of a payment—the excess could be created or increased by payments from deferred compensation plans, qualified pension or profit sharing plans and similar arrangements that have nothing to do with golden parachute contracts.

Fortunately, the 1986 tax law is giving retroactive relief to closely held companies. The change exempts from the parachute rules any firm that qualifies for Subchapter S corporation status, whether it chooses the status or not. (An S corporation is limited to no more than 35 shareholders, all of whom agree to a tax arrangement similar to that for partnerships.)

Also excluded from the new rule on golden parachutes is any corporation whose shares are not readily tradable in an established securities market, including the OTC, as long as proposed payments are disclosed to shareholders and at least 75 percent of the shareholders approve them.

A Man's Home Is No Longer His Shelter

The 1986 tax act hit real estate especially hard.

Deductions from real estate losses are being phased out, and depreciation periods for residential property were extended from 19 years under the old law to 27½ years under the new. Lower tax rates make the remaining deductions worth less.

True, the new law does permit the middle income taxpayer to claim losses up to $25,000 on rental real property that he actively manages. If, however, the taxpayer's adjusted gross income rises above $100,000, the $25,000 allowed loss is phased out at a rate of 50 cents for each dollar of additional income. So no loss is allowed if adjusted gross income exceeds $150,000.

So is 1987 a good year for you, as a

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. For Your Tax File *is an information service for readers. See tax and legal advisers on specific cases.*

middle-income taxpayer, to consider converting part of your home into a rental property? Not necessarily. There is yet another twist.

Under the old tax law, if you converted a personal residence to investment property, the time for determining which depreciation schedule applied was the date the property was first acquired. That would suggest that if you converted now, you would gain the advantage of the old law's more generous depreciation rules.

Not so.

The authors of the 1986 tax act have provided that the new rules will apply if a residence is converted to business use after 1986. For the federal government, the rule is clearly, heads we win, tails you lose. ■

It's Your Money

"There is a time to go short," says broker Charles R. Schwab, and some Wall Streeters believe that time is here.

By Ray Brady

Selling Short: Not For The Faint Of Heart

"You make money in different ways in different markets," says Charles R. Schwab, head of the huge discount brokerage house that bears his name. "There is a time to go short and a time to go long."

Is this the time to go short, to bet that the stock market will be going down more days than it goes up? Some Wall Streeters are beginning to think so. They point out that the stock market has reached the highest point in its history—the Dow Jones Industrial Average soared through the 2,200 level just a few weeks ago. If company earnings for the early quarters of 1987 are not up strongly, those experts say, there could be a giant sell-off.

Another argument for going short: The stock market has been going up at least partly because there is so much money around. (After all, the Federal Reserve Bank has been pumping it out for quite a while now.) But, with interest rates so low and the prospects for real estate investments riddled by the new tax laws, much of that money simply had no place to go except the stock market.

So, if you think this market is a little toppy, to use the professionals' term, how do you go about shorting it?

Short selling is, of course, a way of making money in a falling market. Going short is fairly simple: You tell your broker you want to short XYZ Corporation. In effect, he will borrow the shares for you to sell, and the buyer purchases them at the current market price of, say, $30 a share. Your expectation that the stock will drop to $15 a share proves correct, and your broker goes into the market and picks up at that price enough shares to return the borrowed stock. You pocket the difference between $15 and $30, minus commissions and a few other charges.

You can achieve roughly the same effect by buying a put option. That's a kind of contract that gives you the right to sell XYZ Corporation at, say, $26 a share during a given period of time. You pay the $26 plus a modest premium. When the stock falls to $15, you resell the contract at an $11 profit. The buyer is also operating on the theory that the price is going to drop further. On the other hand, if XYZ Corporation goes to $40 a share, you have a worthless piece of paper to show for your investment. The premium you pay makes it worthwhile for the seller, whose theory is that the stock is in fact going up.

In other words, if you're going to sell short, you've got to know what you're doing. You may also have to change your mental attitude. Fewer than 10 percent of all investors have ever sold a stock short. James Dines, the author of the well-known investment letter, tells his readers to go short only if they can do it by buying puts. "Most people," says Bill LeFevre of Advest, Inc., an investment firm, "don't have the intestinal fortitude to sell short."

Still, shorting is a routine activity for large numbers of professional investors, such as hedge funds. Indeed, when sales of video games suddenly went soft a few years ago, fortunes were made in short selling of stocks in companies connected with such games. In toys, one winning toy can make a company's stock go way, way up. But, when kids tire of that particular toy and the company has no new product to take its place, its stock can plummet.

So how do you find the right stock to short? One short-seller, who wishes to remain anonymous, puts it this way: "Basically, you look at the fundamentals of a company or an industry. You see a company that is starting to disintegrate. The sales of its main product may be slowing, or it may have a load of debt that's going to weigh it down in the future. Meantime, its stock price is way up there. That is a candidate for shorting."

Another candidate: A company that seems to be announcing nothing but good news. At some point, the cycle will turn, and the company's stock will fall.

The National Association of Securities Dealers now publishes data showing the short interest for a big part of the over-the-counter market. (Similar data exists for listed stocks.) But, while that gives short selling more visibility, there are two other things to watch for:

- To sell short, you must open a margin account with the broker, and, if your shorted stock goes up in price, he's going to be calling for more money to cover the stock he has borrowed for you—or he will sell you out.
- If the company declares a dividend while you're short on its stock, you're the one who pays it, because the buyer (not you, but the guy you sold it to) gets the dividend, while the holder (the guy you borrowed it from) is not getting his due. This can get *very* expensive, if the stock is going up.

Oh, yes, one final point: You generally can't get a short sale executed unless the stock is on an "uptick"—going up in price. ■

Ray Brady is the business correspondent for CBS News.

THE NATION'S BUSINESS

Where I Stand

Results of this monthly poll on important public policy issues are forwarded to top government officials in the White House and Congress.

1. Eliminate Joint And Several Liability ?

The debate over the federal role in solving the liability insurance crisis will continue in the 100th Congress. The Reagan administration supports proposed legislation to eliminate joint and several liability, a concept under which any one of several defendants can be held responsible for a full damage award regardless of actual degree of fault. Supporters, including the Trial Lawyers Association, maintain that the concept allows full compensation for injured parties when defendants cannot pay or be identified. Should Congress eliminate joint and several liability?

2. End Insurance Company Antitrust Immunity ?

The McCarran-Ferguson Act of 1945 exempts insurance companies from antitrust laws, enabling them to share ratemaking information. Sen. Howard M. Metzenbaum (D-Ohio) plans to introduce legislation to repeal the exemption, which he says tends to reduce competition and drive up rates. An administration report concludes that no evidence has been found to show that the immunity contributes significantly to higher prices or less competition. Should Congress end insurance companies' antitrust exemption?

3. Government-Mandated Health Coverage ?

Sen. Edward M. Kennedy (D-Mass.), chairman of the Senate Committee on Labor and Human Resources, is proposing a federal law to require all employers, "as a condition of doing business," to provide health-insurance coverage for employees and their families. Opponents of the idea say that the government has already gone too far in dictating benefits employers must provide without regard to their ability to finance those benefits. Should the federal government require all employers to provide health-care coverage?

Verdicts On January Poll

Here is how readers responded to the questions in the January issue's Where I Stand poll.

	Yes	No	Undecided
Should Congress restore the preferential tax treatment for capital gains?	63%	30%	7%
Should Congress bring back the investment tax credit?	66%	29%	5%
Should Congress approve a plan to privatize many federal jobs?	77%	14%	9%

Send in your vote on the inserted postpaid card. Explanations of your views on any of these questions are also welcome as letters to the Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

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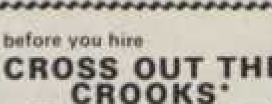

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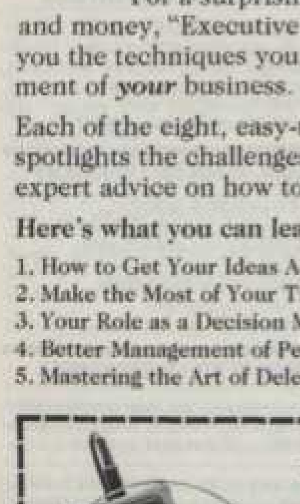

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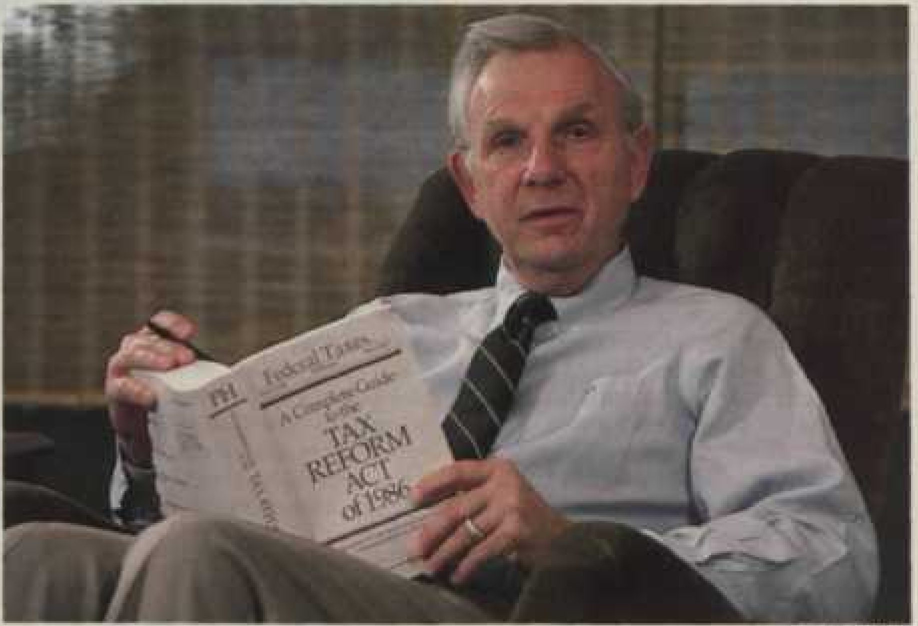
LESSONS OF LEADERSHIP

Bloch That IRS Return

No matter how they spell it, millions remember Henry W. Bloch's name at tax time.

By William Hoffer

For Henry W. Bloch, president and chief executive officer of H&R Block, Inc., tax reform makes for good reading. His 9,000 offices already prepare 10 percent of U.S. returns; complex new rules should bring even more bewildered taxpayers running to his offices for assistance.



PHOTOS: T. MICHAEL KEZA

Like any other procrastinator, Henry W. Bloch waits until early April to begin preparing his own tax return. Working at home in Kansas City, Mo., he gathers his personal financial records and roughs out the paper work. But then he seeks the assistance of an accounting firm for the final preparation, because of a personal philosophy that helped him and his brother Richard build an empire that prepares a whopping 10 percent of the nation's income tax returns. Says Bloch, "I believe everyone ought to have someone else's name on his or her tax return."

Although Bloch's own name appears on nearly 11 million income tax returns each year, it is spelled incorrectly. In 1955, when Henry and Richard sought to expand their income tax preparation service from its base in Kansas City, they decided to use the name H&R Block, Inc., to prevent people from mispronouncing the name *Blotch*.

Today that misspelled name is one of the most recognizable in America. Nearly 9,000 H&R Block offices dot the country, honeycombing the larger cities and reaching into the smallest rural nooks and crannies. There are additional offices in Canada, Australia, New Zealand and various European nations.

At 64, Henry Bloch is president and chief executive officer of a public corporation that garnered $606,740,000 in revenues during fiscal 1986 and earned after-tax net profits of $60,104,000. Younger brother Richard is honorary chairman of the board, having retired in 1982 to devote his time to a personal crusade against cancer (see box).

Henry Bloch realized his facility with numbers as an undergraduate at the University of Michigan, where he was a valued asset at Zeta Beta Tau in helping his fraternity brothers with their math homework. He considered becoming a math teacher after college but was drafted and became a bomber navigator with the Eighth Air Force.

After the war, while studying statistics at the Harvard Business School, he was inspired by a professor's pamphlet extolling the virtues of small business. He decided to use his math expertise to launch his own enterprise.

Returning to Kansas City in 1946, he joined forces with his older brother Leon. They borrowed $5,000 from an aunt and started United Business Company, which offered accounting services to businesses too small to afford in-house expertise. The first year was disappointing, and Leon left the partnership to attend law school.

Living on a $50-per-month benefit from the GI Bill, Henry Bloch persisted until business picked up through word-of-mouth referrals. Soon Richard, 3½ years younger than Henry, joined the company.

The Blochs sought regular clients who would pay a monthly fee for accounting services, but as a favor, they also prepared tax returns. Each year they found themselves increasingly busy as March 15 (the old IRS deadline) approached. By 1955 they determined that they should either get out of the seasonal income tax preparation business—or pursue it with vigor.

Fate intervened. That year, the IRS started phasing out its free income tax preparation service to taxpayers—replacing it with advice only. The Blochs reasoned that a taxpayer might prefer to pay for preparing a return if the preparer guaranteed to pay any interest and penalty resulting from his error. As a market test the brothers ran two ads in the *Kansas City Star*.

"The first ad was run the day after everyone received their W-2 forms," says Henry. He was out that morning on a business errand when he received an urgent message from brother Dick to return to the office because they were swamped with clients. The Blochs grossed $25,000 in 1955.

To expand rapidly, the Bloch brothers sold their idea as a franchise. Franchisees gained the right to open a number of offices in a given area. The first franchise, covering New York City, was sold to two CPAs for a fee of $10,000. The corporation owns outright about half of the offices that carry its name. The remainder are franchised.

Each tax preparer is meticulously trained, for H&R Block knows that no matter how often the soft-spoken, grandfatherly Henry Bloch pitches his company on TV, the individual preparer remains the firm's best salesperson.

"When Henry and Dick started, they

got a great deal of static from the big accounting firms, which didn't want to muddy the waters with small firms in the profession," recalls G. Kenneth Baum, chairman of George K. Baum & Company, the Kansas City investment banking firm that helped H&R Block go public in 1962.

Baum's answer to how the Blochs did so well: "From the start, they insisted on quality. Even with the great expansion, they have maintained that quality."

One might assume that all this would lead to unparalleled growth, and for a time it did. Says Bloch, "We never increased our fees until 1970, because we never had to. We opened new offices, and each office grew. We got to the point where we were doing about 10 percent of the country's returns, but we haven't been able to grow beyond that. Our biggest competitor is the person who does his own tax return."

Apparently at a saturation point, Block started to diversify through acquisition.

Says Bloch: "We've been buying small companies instead of going out and looking for somebody big. If a big subsidiary had a bad year, we would have a bad year. So we have looked for small companies with growth potential."

There are now four subsidiaries, and each seeks to exploit the success formula pioneered by the brothers Bloch—provide a necessary service to Everyman. The subsidiaries are:

- CompuServe, Inc., a computer communications and information service, most notable for its CompuServe Information Service that allows a personal computer user to access a wealth of information over telephone lines.
- Personnel Pool of America, a 40-year-old firm that arranges for temporary workers, especially in the health care field.
- Path Management Industries, the nation's largest provider of one-day business skills seminars.
- Block Management Company, which supplies marketing and administrative services to a single client—Hyatt Legal Services.

This fourth subsidiary represents an ambitious effort to do for law practice what H&R Block did for income tax preparation. In 1977, when the U.S. Supreme Court allowed attorneys to advertise their services, Cleveland lawyer Joel Hyatt and three partners opened legal clinics throughout Ohio, advertising basic legal services at standardized fees.

Providing a necessary service to Everyman is the goal of Henry Bloch and his associates, Judy Keisling, H&R Block's manager of tax training, and attorney Joel Hyatt, founder of Hyatt Legal Services.

Both Hyatt and Henry Bloch believed a union of the companies could lead to rapid expansion, but there was a hitch—a nonlawyer cannot legally own a law firm. That obstacle was surmounted neatly by Block Management Company, which holds no ownership in Hyatt Legal Services but provides buildings, management services and other nonlegal expertise under contract. Hyatt Legal Services has 200 offices around the country.

Despite the activities of the subsidiaries, however, income tax preparation remains H&R Block's solid foundation. Almost nothing is as certain as the business that the company will do between each January 1 and April 15.

"A lot of our clients are going to want to know how they will be affected in 1987 by the new tax bill, so we have come out with a form called The Tax Forecaster," Bloch says. "We can take an individual's 1986 tax information, apply the 1987 tax law to it, and tell him how he would come out if he were filing under the 1987 law."

Whatever the ultimate effects of the Tax Reform Act of 1986, Bloch is confident that the 11 million people who turn to him for advice on their annual income tax returns will continue to do so. He concedes that after the five-year phase-in for the new law, income tax preparation may become simpler, resulting in more self-prepared returns. "But the history of the tax law, which started in 1913, is that each year more and more changes take place," he notes. "I would expect to see that process accelerate." NB

Richard Bloch: Life After Taxes

March 28, 1978. Richard Bloch remembers that date well. That was when "the doctor told me I had inoperable lung cancer," he recalls.

Suddenly it did not matter that Bloch, along with his brother Henry, had enjoyed unparalleled business success, building H&R Block, Inc.

Five horrible days passed before Bloch, then 52, heard these take-charge words from another physician: "We're going to cure you, and then you're going to work for cancer research."

For the next year Bloch was, he recalls, "sick as a dog" as doctors used five different cancer therapies in a sequence never before attempted. Finally, on May 1, 1980, physicians declared that the cancer was gone.

True to his physician's pronouncement, Bloch set to work to further the cause of cancer research. He became a member of the National Cancer Advisory Board, which oversees the administration of the National Cancer Institute's research grants. He helped launch Protocol Data Query (PDQ), a computerized hotline offering up-to-date information to physicians treating cancer patients. With his wife Annette he created the Cancer Hot Line in Kansas City, Mo. (and now in other areas).

COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

ISSUE	BUSINESS IMPACT	BUSINESS MESSAGE
Budget	Federal spending is nearly 24 percent of the gross national product, compared with 22 percent in 1980. If federal spending growth is not cut significantly, economic growth will be imperiled by the rising deficit—which reached $220 billion last year—and by fear of a major tax increase to cut that deficit.	Members of the House and Senate: Support the deficit targets of the Gramm-Rudman-Hollings Balanced Budget Act of 1985. Strengthen the act by modifying and restoring its automatic spending-reduction mechanism, declared unconstitutional by the Supreme Court. Oppose meeting the act's targets through tax increases.
Trade Reform	The large merchandise trade deficits of recent years—approximately $175 billion in 1986—may lead to trade-restrictive legislation that could damage the U.S. economy and the world trading system. However, business could benefit from executive and legislative action to improve access to foreign markets and reduce foreign unfair trade practices.	Members of the House and Senate: Demand a level international playing field. Urge tougher enforcement of trade laws and removal of market access barriers. Support legislation to clarify the Foreign Corrupt Practices Act and to provide telecommunications market access, presidential multilateral negotiating authority and strong intellectual property protection.
Health Care Coverage	Congress will probably consider proposals to require all employers—large and small—to provide and pay for health care coverage for employees and to require employees to accept such coverage. Mandated coverage would increase employers' costs and impose administrative burdens and could force some out of business.	Members of the House and Senate: Oppose mandating health care coverage, which many businesses cannot afford. The voluntary private-sector employee benefits system works well for employees and employers alike by allowing employees to choose benefits that they prefer, and employers to provide those that they can afford.
Construction Labor/ Double Breasting	Congress may pass a bill to prohibit the construction industry practice of double breasting. Under that procedure, separate companies with common ownership, management or control operate either union or nonunion shops. The bill would require that both shops operate in the same manner, which could provide union organizers with a significant advantage by subjecting employees of the nonunion companies to a collective bargaining agreement without a representation election.	Members of the House and Senate: Oppose legislative attempts to upset the balance in construction labor-management relations. Oppose the prohibition of separate shop operations. Support freedom of choice for workers to decide if they wish to be represented by a union. It would be unreasonable to consider separate companies as a "single employer" without regard to function or location, on the basis of some indirect connection.
Uniform Rules On Food Safety	Differing state standards for pesticide residues in food have created confusion and waste in the food industry. Businesses and consumers both suffer when food products are removed from store shelves in a few states, yet are sold in others.	Members of the House and Senate: Support a national, uniform system for regulating pesticide residues in food. Regulation of residues is not a states' rights issue but an interstate commerce issue reflecting the country's single nationwide food market.

COMMENTARY

Editorials

The verdict is long since in: A capital gains incentive fosters economic growth and increases tax revenues.

Why Congress Should Reconsider Abolition Of The Capital Gains Differential

The sweeping changes in the 1986 Tax Reform Act included elimination of preferential treatment for long-term capital gains.

In view of the lower overall tax rates in the law, Congress assumed that investors would continue to finance the capital expansion that keeps the economy going.

But Congress instead has erected a large roadblock in the way of capital investment that will harm the government's revenue collections.

The combination of higher taxable income through fewer deductions and higher capital gains rates will substantially raise the federal government's claim on capital gains. And because most states link their tax systems to the federal government's, many states are expected to withdraw their capital gains preference. Unless those states lower their rates accordingly, their top effective rates on individual capital gains will skyrocket.

In New York State, for example, an investor who paid a combined federal/state tax rate of 22.7 percent on capital gains under the old U.S. tax code now will pay 37.7 percent if the state makes no changes.

While the impact will vary from state to state, investors' reactions will take essentially the same form.

One obvious effect, congressional good intentions notwithstanding, will be a reduction in individual investments, particularly in high-risk activities.

There is a track record on this point. Investments in new, small companies totaled $171 million in 1969. The federal capital gains tax was raised from 25 percent to 49 percent in the early 1970s, and investments in start-up businesses fell to $10 million in 1975.

When Congress saw this economic damage from the sharp increase in capital gains taxes, it cut back the rate to 28 percent in 1978. Revenues from that tax source went up 57 percent within the next five years.

The 1986 tax law will further reduce the flow of investment capital because of what is called the "lock-in effect"—the reluctance of investors to take capital gains in the absence of preferential tax treatment. When those investors choose to leave their money in existing investments, less capital is available for stimulating business ventures.

PHOTO: GARY KIEFFER

And, although Congress viewed the elimination of the capital gains differential as a means of raising revenue, its action could have the opposite effect. By slowing the realization of capital gains, the higher tax rate will actually reduce the amount of taxes the government receives from that source.

The verdict is long since in: A capital gains incentive fosters economic growth and increases tax revenues. Congress should use that economic fact of life as the basis for taking a new look at its 1986 action on capital gains.

How Not To Fight A Recession

When the unemployment rate hit 11.4 percent in January 1983, alarmists claimed the recession was turning into a full-scale depression. Pointing to figures showing that 12.5 million Americans were out of work, they called for aggressive government spending to create jobs.

The result was the $9 billion Emergency Jobs Appropriations Act, which was enacted within two months in a crisis atmosphere.

Supporters claimed that the act would put hundreds of thousands of individuals back to work.

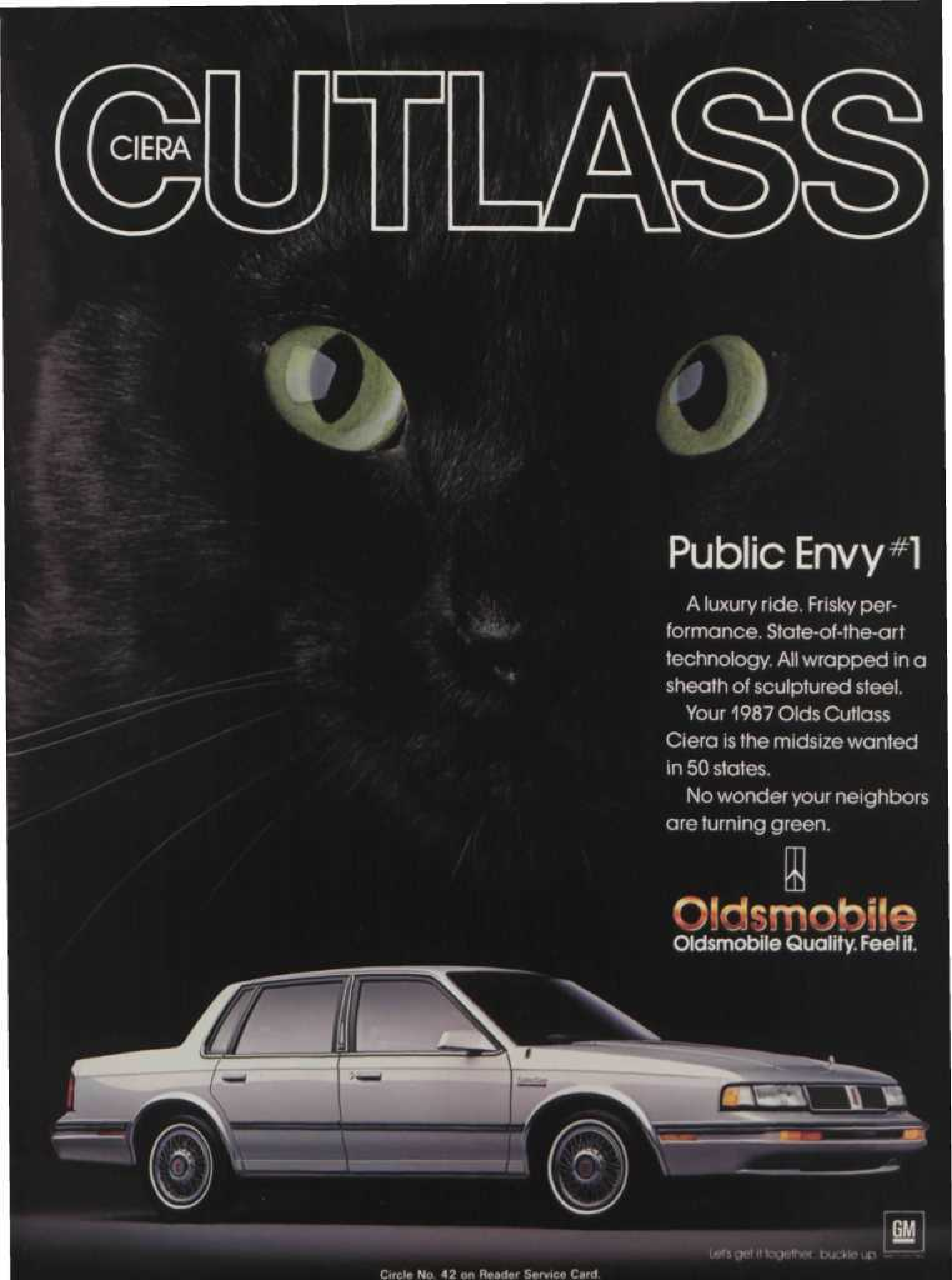
How effective was this latter-day use of New Deal pump-priming tactics? The General Accounting Office, Congress' watchdog on government spending, recently concluded the exercise was a flop.

GAO reported, "We found little evidence that hiring the unemployed was greatly emphasized." Government actions under the act created only 85,000 jobs—and each cost $88,571, the government agency said.

Ironically, the GAO noted, the program was designed to relieve unemployment quickly, but Congress emphasized major public works projects that required long-range design and planning before workers could be hired.

"Had the act emphasized programs and activities that could have spent funds quickly, before the economy began to recover," the GAO said, "more jobs would have been provided when jobs were most needed."

Unmentioned was that by the time the emergency jobs act was passed in spring 1983, the recovery was under way and more than 1 million jobs had already been created—without any assistance from this billion-dollar spending scheme.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